

City of Muskegon,
Michigan

Comprehensive Annual Financial Report



For The Year Ended December 31, 2007

**CITY OF MUSKEGON,
MICHIGAN**

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2007**

Prepared By

FINANCIAL SERVICES DIVISION

**Timothy Paul
Director of Finance**

**Elizabeth Lewis
Assistant Finance Director**

**Kenneth Grant
Income Tax Administrator**

**Kathy Coleman
Accounts Payable**

**Derrick Smith
City Treasurer**

**James Maurer
Information Systems Director**

**Matt Lee
Payroll**

City of Muskegon

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Affirmative
Action
(231)724-6703
FAX (231)722-
1214

Cemetery
(231)724-6783
FAX (231)726-
5617

City Manager
(231)724-6724
FAX (231)722-
1214

Civil Service
(231)724-6716
FAX (231)724-
4405

Clerk
(231)724-6705
FAX (231)724-
4178

Comm. &
Neigh. Services
(231)724-6717
FAX (231)726-
2501

Finance
(231)724-6713
FAX (231)724-
6768

Fire Department
(231)724-6792
FAX (231)724-
6985

Income Tax
(231)724-6770
FAX (231)724-
6768

Inspection
Services
(231)724-6715
FAX (231)728-
4371

Leisure Services
(231)724-6704
FAX (231)724-
1196

Mayor's Office
(231)724-6701
FAX (231)722-
1214

Planning/Zoning
(231)724-6702
FAX (231)724-
6790

Police
Department
(231)724-6750
FAX (231)722-
5140

Public Works
(231)724-4100
FAX (231)722-
4188

Treasurer
(231)724-6720
FAX (231)724-
6768



June 24, 2008

Honorable Mayor and Members of the
City Commission
City of Muskegon
Muskegon, Michigan 49443

Ladies and Gentlemen:

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) for the City of Muskegon, Michigan, for the year ended December 31, 2007. This report includes the City's audited financial statements in accordance with the requirements of state law. The financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP), and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This annual report is formatted to comply with the financial reporting model developed by the Government Accounting Standards Board (GASB) Statement 34.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with the financial statements. The City of Muskegon's MD&A can be found immediately following the independent auditor's report.

The Comprehensive Annual Financial Report is prepared by the City's Finance Department and responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data as presented is accurate in all material respects; that it is presented in a manner designed to set forth fairly the financial position and results of operation of the City as measured by the financial activity of its various funds and component units; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's finances have been included. Brickley DeLong, P.L.C., Certified Public Accountants, performed the independent audit of all accounts of the City as required by state law and their report and unqualified opinion is presented as the first component of the financial section of this report.



THE CITY AND THE REGION

The City of Muskegon is located in Western Michigan on the shores of Lake Michigan. The City covers eighteen square miles and, with a population of approximately 40,000, is the largest city on the eastern shore of Lake Michigan. The City is located in Muskegon County and is part of the Muskegon-Norton Shores MSA. Although Michigan's economy has lagged the national economy due to loss of manufacturing, Muskegon's local economy has performed better than most Michigan communities:

Muskegon is home to many outstanding sports, recreation and cultural activities:

- Michigan Adventure Amusement Park, located north of the city, is the largest amusement park in Michigan. The recent extension of City water to the amusement park is expected to spur further development in and around the amusement park.
- Muskegon is home to both a professional hockey team (UHL Muskegon Fury) and a professional arena football team (Muskegon Thunder).
- Muskegon is home to the annual Miss Michigan pageant. In 2007, Kirsten Haglund, was crowned Miss Michigan in Muskegon and went on to win the 2008 Miss America pageant.
- Pere Marquette beach is nationally recognized as one of the best beaches in the nation and is the only beach in Michigan to receive and maintain the Blue Wave Certification by the Clean Beaches Council. The Blue Wave certification identifies the nation's cleanest, safest and most environmentally well-managed beaches.
- Muskegon is home to successful summertime festivals that attract tens of thousands of visitors to the community. These include *Muskegon Summer Celebration* which brings top name musical groups to town for 11 days of waterfront music celebration and the new *Bike Time* festival which in its inaugural year attracted more than 25,000 motorcycle enthusiasts to the city.
- Muskegon is the cultural hub for West Michigan with numerous museums and live performances. The Muskegon Museum of Art has one of the best art collections in the Midwest, and the Muskegon County Museum provides insight into the area's history. The former residences of Muskegon's lumber barons, Charles H. Hackley and Thomas Hume, proudly display the glory of the Victorian ages. The Fire Barn Museum takes visitors back to a 1890s Muskegon Fire Station. The West Shore Symphony and Muskegon Civic Theater bring the stage of The Frauenthal Center for the Performing Arts to life throughout the year.
- Muskegon is home to three historic museum ships that attract thousands of visitors each year:
 - *USS Silversides*, a rare surviving World War II submarine maintained in pristine condition;
 - *LST-393*, a landing craft used in the D-day invasion and one of only two such vessels remaining in existence; and the
 - *Milwaukee Clipper*, a Great Lakes passenger ship built before the *Titanic* that for many years served as a cross-lake ferry between Muskegon and Milwaukee.



The City operates under a Commission-Manager form of government and provides the full range of traditional municipal services. These include police and fire protection, parks and recreation activities, public works operations, water and sewer services, parking facilities, solid waste collection, community development and general administrative support services. The City also provides treated water to several surrounding communities on a wholesale basis.

COMPONENT UNITS

The City has three discretely presented component unit types. These entities are discretely presented in the financial statements as the governing boards of the component units are substantially the same as the City's governing board:

- The Downtown Development Authority (DDA) which exists primarily for the purpose of financing redevelopment activities in the City's downtown area. The DDA has issued bonds that are repaid through tax increment revenues generated by development within the Authority's boundaries.
- The Tax Increment Finance Authority (TIFA), which exists primarily for the purpose of financing redevelopment activities in a sub-section of the City's downtown area. The TIFA generates tax increment revenues through development within the Authority's boundaries.
- The Local Development Finance Authority issues bonds for development activities in the City's industrial park and high-tech park areas. Bonds are repaid through tax increment revenues generated by development within the Authority's boundaries. The City has created four separate local development finance authority districts under the aegis of the Local Development Finance Authority (LDFA). Only one of these four districts has debt outstanding at this time.

LOCAL ECONOMIC CONDITION AND OUTLOOK

Muskegon is fortunate to have a diverse local economy. The manufacturing sector is strong in the areas of aerospace, chemicals, plastics, paper products, metals and castings, office furniture and automotive parts. The City of Muskegon also benefits from being home to large government, corrections, healthcare, and educational employers. Local income tax withholdings remitted by these employers provide stability to City finances in times of economic weakness.

As noted, the downturn in Michigan's manufacturing economy has impacted Muskegon, but not to the extent it has other Michigan communities. According to the W.E. Upjohn Institute, West Michigan employment is expected to see a 0.3% decline in 2008 and 0.6% growth for 2009.



MAJOR INITIATIVES AND ACCOMPLISHMENTS

Among the City's major initiatives and accomplishments in 2007 were the following:

- Redevelopment of the twenty acre site of the former downtown mall began in earnest in 2007 with several exciting projects started and announced:
 - A new high-end furniture store opened for business in the restored Century Club, an architecturally significant historic building dating from the early 1900's;
 - Construction began on several new buildings including the \$3.0 million headquarters for the Muskegon Area Chamber of Commerce and a \$3.5 million office building anchored by a local engineering and architectural firm, and
 - Plans were unveiled for an \$11.0 million culinary arts training facility to be constructed on the site by Baker College, a \$5.0 million renovation of the 8-story former Comerica Bank building into residential condominium units and a \$2.0 million renovation of the former National City Bank Building.
- A new \$4.0 million Central Fire Station was constructed on a nine acre former brownfield site in the downtown area. Also constructed on the site in 2007 was a new Harley-Davidson dealership and showroom. Further development of the site is expected in 2008.
- The high-speed cross-lake ferry service linking Muskegon with Milwaukee, Wisconsin completed a fourth successful year of operations. More than 110,000 passengers rode the ferry in 2007.
- The undeveloped portion of the Edison Landing Smartzone on the City's downtown waterfront was sold to a new developer. Plans call for additional office buildings and residential space to be constructed starting in 2008.
- The city completed a series of steps aimed at restructuring its long-term pension and retiree healthcare commitments during 2007. These steps are described more fully below under *Pensions and Other Post-Employment Benefits*

OTHER INFORMATION

INTERNAL ACCOUNTING CONTROLS

The City's management is responsible for establishing and maintaining an internal control structure that is designed to ensure adequate protection of the City's assets from loss, theft, or misuse, and adequate accounting data to allow for preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the costs of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.



All internal control evaluations occur within the above framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurances of proper recording of financial transactions.

BUDGETARY CONTROL

Budgetary control is maintained through an annual budget resolution passed by the City Commission. Budgetary control at the functional level is maintained by review of estimated expenditures prior to making purchases. Encumbrances are not recorded in the City's funds. The City does, however, utilize an informal monitoring system to facilitate budgetary control over proposed purchases. Essentially, this system entails the use of on-line budgetary information that details year-to-date "actual versus budgeted" expenditure comparisons by budget category. This information is accessible to appropriate personnel to enable them to ascertain the budget status of an expenditure category prior to authorizing additional purchases.

DEBT ADMINISTRATION

At December 31, 2007, the total of City bonds and contractual debt outstanding (including discretely presented component unit debt) was \$40,517,721. No new debt was issued by the City or its component units in 2007. Standard & Poor's has affirmed the City's general obligation debt rating of **A**.

CASH MANAGEMENT AND INVESTMENTS

Temporarily idle cash from the City's various funds is invested through management of a common pooled cash and investments system. Maturity of investments are timed to meet the City's cash needs. Investment instruments generally consisted of U.S. Treasury Bills and Notes, government agency securities, high quality commercial paper and liquid money-market funds. Daily liquidity needs are managed by investments in liquid short-term funds of all cash not needed in the common checking account to cover checks and other debits presented to the bank for payment that day. The City has contracted with MBIA Municipal Investors Service Corporation to provide full-time, non-discretionary management of the City's operating funds portfolio.

PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

For more than sixty years, the City of Muskegon sponsored two locally-administered defined benefit pension programs: the *Police and Fire Retirement System* for uniformed police and fire personnel and the *General Employees' Retirement System* for all other full-time employees. In late 2005, the City began transitioning administrative responsibility for defined benefit pensions to the statewide Municipal Employees Retirement System (MERS) of Michigan. This was done to achieve the economies of scale and investment diversification that the \$6 billion MERS program offers. Transitioning to MERS involved extensive negotiations with five labor unions and gaining the cooperation of affected employees and



retirees. The transfer of defined benefit pension investments and administration to MERS was completed in April 2007.

A parallel effort has been to stabilize the City's retirement benefit liabilities by replacing the defined benefit pension program with a defined contribution model. This goal has been achieved and, all new employees hired by the City are now covered by a defined contribution retirement program.

The City also provides post-retirement healthcare benefits for retirees and their dependents. Since 1987, the City has had an actuarial valuation of its post employment healthcare obligation prepared annually and has followed a program of prefunding the obligation in the same manner as its pension obligations. In 2005, the City implemented the requirements of GASB statements 43 and 45 – "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." During 2007, the City also transferred responsibility for management of its retiree healthcare assets to the *MERS Retiree Health Funding Vehicle* in order to achieve greater investment diversification, professional management and economies of scale.

RISK MANAGEMENT

During 2007, the City continued participation in the Michigan Municipal Risk Management Authority (MMRMA), an intergovernmental cooperative self-insurance program. The MMRMA offers secure liability and property insurance coverage with premium stability and broad coverage at a competitive price. The City is insured up to \$15 million with a \$100,000 deductible per occurrence for general, auto, public official and law enforcement liability. Since the City began participating in the MMRMA program in March 1986, total incurred losses and expenses (exclusive of reinsurance recoveries) have been \$8,071,039.

SINGLE AUDIT

The City is required to have an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, "Audits of State, Local Governments and Non-Profit Organizations". Information related to the single audit, including the schedule of federal awards, findings and questioned costs, and auditors' reports on internal control over financial reporting and compliance with certain laws, regulations and grants are included herein. The financial activities related to the single audit requirements, such as the Community Development Block Grant Program, are also included in this financial report.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Muskegon for its Comprehensive Annual Financial Report for the year ended December 31, 2006. This marked the twenty-second consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and

MUSKEGON



West Michigan's Shoreline City
www.shorelinecity.com

efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

We would like to thank the members of the City Commission for their continued interest and support in conducting the financial affairs of the City in a responsible and progressive manner and for their efforts in working for the betterment of the Muskegon community. We would also like to thank the many City employees who participate in the preparation of this report.

Respectfully submitted,

A handwritten signature in cursive script, reading "Bryon L. Mazade".

Bryon L. Mazade
City Manager

A handwritten signature in cursive script, reading "Timothy J. Paul".

Timothy J. Paul
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Muskegon
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



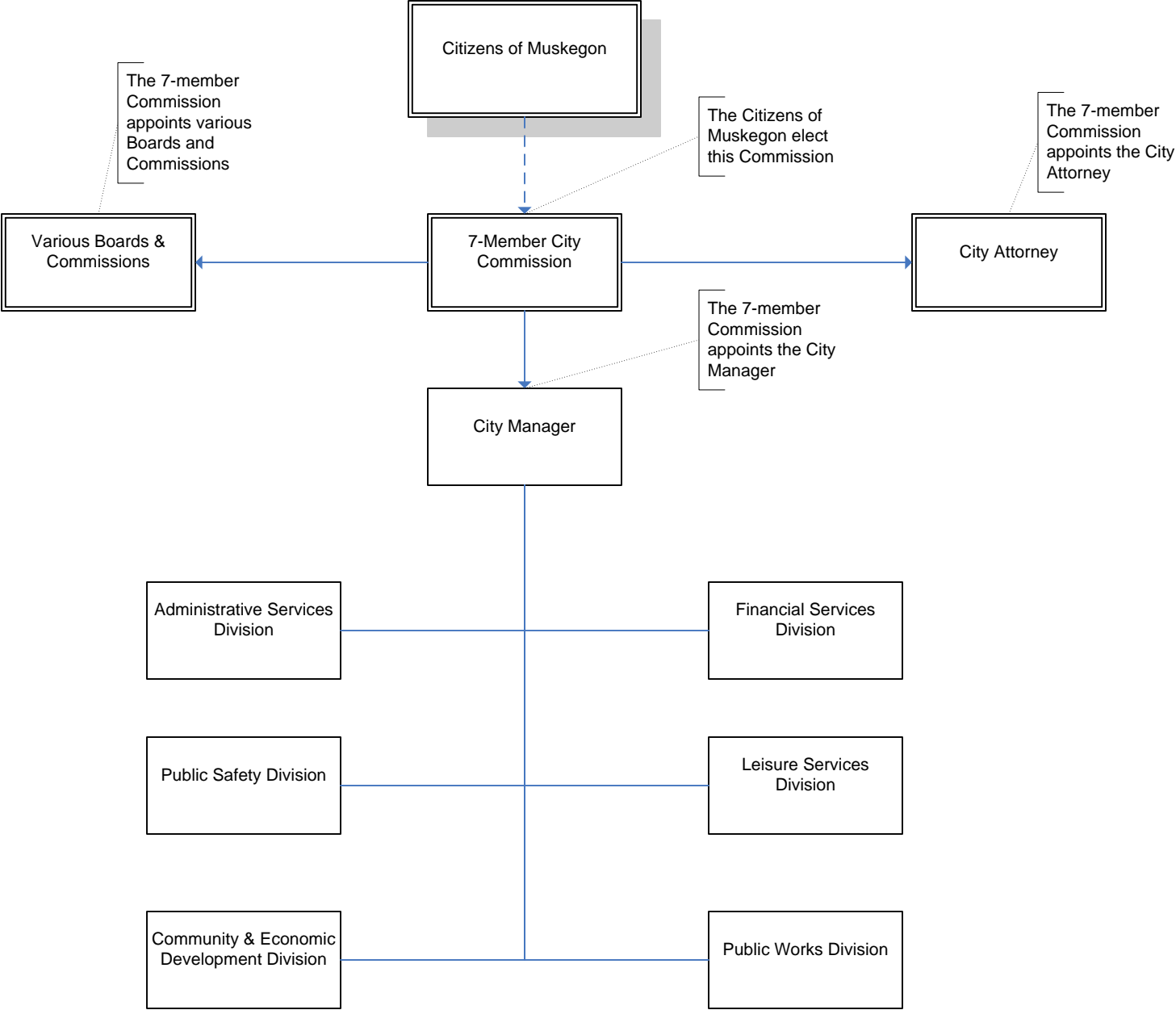
Oliver S. Cox

President

Jeffrey R. Enen

Executive Director

City Of Muskegon Organizational Chart



**CITY OF MUSKEGON, MICHIGAN
LIST OF PRINCIPAL OFFICIALS**

December 31, 2007

ELECTED OFFICIALS

Mayor-Commissioner. Steve Warmington
At Large

Vice Mayor-Commissioner. Stephen J. Gawron
At Large

Commissioner. Chris Carter
Ward 1

Commissioner. Clara Shepherd
Ward 2

Commissioner. Lawrence O. Spataro
Ward 3

Commissioner. Steve Wisneski
Ward 4

Commissioner. Sue Wierengo
At Large

APPOINTED OFFICIALS

City Manager. Bryon L. Mazade

City Attorney. John C. Schrier

Director of Finance. Timothy J. Paul

FINANCIAL SECTION

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

June 24, 2008

City Commission
City of Muskegon
Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Muskegon as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Muskegon's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Muskegon, as of December 31, 2007, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 19 - 30 and 74 - 81 are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BRICKLEY DELONG

City Commission
June 24, 2008
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Muskegon's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Muskegon. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Brickley DeLong, PLC

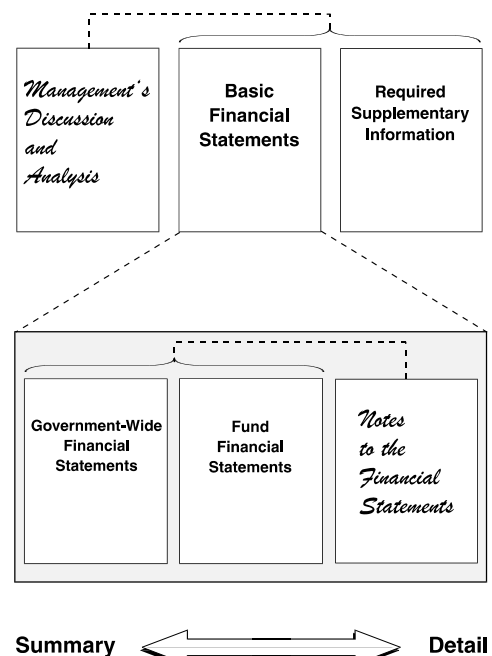
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Muskegon's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended December 31, 2007. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City of Muskegon exceeded its liabilities by \$131,868,102 as of December 31, 2007. Of the total net assets, \$18,143,248 (13.8%) was unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total combined net assets increased \$2,346,908 during 2007. This increase is primarily the result of tight budget controls and receipt of grant monies used for investment in capital assets.
- The City's governmental funds reported combined ending fund balance of \$12,233,731, a decrease of \$998,380 from the prior year. Most of the change results from spending down proceeds from long-term debt issued in the prior year for construction of the new Central Fire Station.
- The City's General Fund reported a total fund balance of \$2,920,632, an increase of \$230,593 over the prior year. The City also maintained a Budget Stabilization (or "rainy day") Fund that reported a \$1.75 million fund balance of at December 31, 2007, an increase of \$250,000 from 2006.

Figure A-1, Required Components of the City's Annual Financial Report



OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City.

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting individual City operations in greater detail than the government-wide statements.

- *The governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains available for future spending.
- *Proprietary fund* statements offer *short- and long-term* financial information about activities the City operates *like private businesses*.
- *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include detailed notes that explain some of the information in the financial statements and provide additional data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2. Major Features of the City's Government-Wide and Fund Financial Statements

Type of Statements	Fund Statements			
	Government-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses.	Instances in which the City is the trustee or agent for someone else's resources
Required financial statements	• Statement of net assets	• Balance sheet	• Statement of net assets	• Statement of fiduciary net assets
	• Statement of activities	• Statement of revenues, expenditures & changes in fund balances	• Statement of revenues, expenses and changes in fund net assets • Statement of cash flows	• Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the City's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Government-Wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets—the difference between the City's assets and liabilities—is one

way to measure the City's overall financial health or *position*. Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. However, to assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements include not only the City of Muskegon itself (known as the *primary government*), but also legally separate *component units* for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements of the City include the *governmental activities*. Most of the City's basic services are included here, such as general government, public safety, highways and streets, sanitation, economic development, parks and recreation, and interest on long-term debt. Income taxes, federal grants, property taxes and revenues from the State of Michigan finance most of these activities.

Also included in the government-wide statements are the City's business-type activities: water, sewer and marina operations.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's major *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law or other legal requirements.
- The City Commission establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps the user determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page of the governmental funds statements that explain the relationship (or differences) between them.

- *Proprietary funds*—Services for which the City charges customers a fee are generally reported in proprietary funds. The City uses three proprietary funds: water, sewer, and marina. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.
- We use *internal service funds* to report activities that provide supplies and services for the City's other programs and activities.
- *Fiduciary funds*—The City is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.
- *Component units* – Finally, the City of Muskegon's Comprehensive Annual Financial report includes five component units: the Downtown Development Authority (DDA), the Tax Increment Finance Authority (TIFA) and, three Local Development Finance Authorities (LDFAs). Component units are separate legal entities for which the City of Muskegon has some level of financial accountability. The component units of the City exist primarily for the issuance and repayment of debt to finance projects in specific areas of the City. Accordingly, they are discussed below under the *Capital Assets and Debt Administration* heading.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net assets. The Statement of Net Assets provides an overview of the City's assets, liabilities and net assets. Over time this can provide a good indicator of the City's fiscal health. The total net assets of the City were \$131,868,102 as of December 31, 2007. This is an increase of \$2,346,908 over reported net assets for the prior year, as restated. A summary of the City's net assets follows:

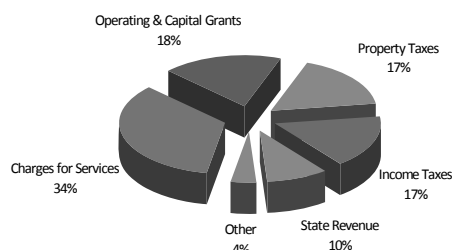
City's Net Assets
(In thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change 2007-2006
	2007	2006	2007	2006	2007	2006	
Current and other assets	\$25,758	\$27,617	\$9,542	\$9,804	\$35,300	\$37,421	-5.7%
Capital assets	78,496	78,137	60,994	62,036	139,490	140,173	-0.5%
Total Assets	104,254	105,754	70,536	71,840	174,790	177,594	-1.6%
Long-term liabilities	9,083	10,043	19,337	21,629	28,420	31,672	-10.3%
Other liabilities	11,463	13,365	3,039	3,036	14,502	16,401	-11.6%
Total Liabilities	20,546	23,408	22,376	24,665	42,922	48,073	-10.7%
Net Assets							
Invested in capital assets, net of related debt	68,060	68,189	39,357	39,442	107,417	107,631	-0.2%
Restricted	5,485	5,378	822	822	6,307	6,200	1.7%
Unrestricted	10,163	8,779	7,981	6,911	18,144	15,690	15.6%
Total Net Assets	\$83,708	\$82,346	\$48,160	\$47,175	\$131,868	\$129,521	1.8%

The bulk of the City's net assets (\$107,416,592 or 81%) reflect investment in capital infrastructure assets less the remaining balance of debt issued to acquire those assets. Infrastructure assets are used to provide public services to citizens and are not available for spending. Another 4.8% (\$6,308,262) of the City's net assets are legally restricted as to use. The remaining net assets (\$18,143,248) are unrestricted and may be used to meet the City's operating needs and ongoing obligations.

Changes in net assets. The City's total revenues were \$46,768,399. Just over a third of the City's revenue stream came from charges to users of specific services such as water or sewer (See Figure A-3). Another eighteen percent came from various grants from the state and federal governments and thirty-four percent was from local property and income taxes. The remainder was comprised of state revenues and other sources such as investment income.

Figure A-3
City of Muskegon
Sources of Revenue for Fiscal Year 2007



The total cost of all City programs and services during 2007 was \$44,421,491, an increase of \$1,862,908 from 2006. Seventy-five percent of these costs were for governmental activities such as police and fire protection, streets, parks, and general administration. The remainder represents business-type activities operated by the City, specifically, water, sewer and marina operations.

The difference between the City's total revenues and expenses (\$2,346,908) represents the increase in total net assets for 2007. The following table (*Changes in City's Net*

Assets) further breaks down the change in total net assets into year-to-year changes in individual revenue and expense categories:

Changes in City's Net Assets (In thousands of dollars)							
	Governmental Activities		Business-Type Activities		Total		Total Percentage Change 2007-2006
	2007	2006	2007	2006	2007	2006	
Program revenues							
Charges for services	\$4,109	\$4,967	\$12,030	\$11,413	\$16,139	\$16,380	-1.5%
Operating grants and contributions	5,229	5,093	-	-	5,229	5,093	2.7%
Capital grants and contributions	3,348	5,360	-	711	3,348	6,071	-44.9%
General revenues							
Property taxes	8,014	7,847	-	-	8,014	7,847	2.1%
Income taxes	7,758	7,674	-	-	7,758	7,674	1.1%
State shared revenues	4,475	4,674	-	-	4,475	4,674	-4.3%
All other	1,634	1,263	170	122	1,804	1,385	30.3%
Total revenues	34,567	36,878	12,200	12,246	46,767	49,124	-4.8%
Governmental activities expenses							
Public representation	925	904	-	-	925	904	2.3%
Administrative services	784	733	-	-	784	733	7.0%
Financial services	2,205	2,062	-	-	2,205	2,062	6.9%
Public safety	12,802	13,059	-	-	12,802	13,059	-2.0%
Public works	2,989	3,089	-	-	2,989	3,089	-3.2%
Highways, streets and bridges	7,272	5,672	-	-	7,272	5,672	28.2%
Community and economic development	3,054	3,383	-	-	3,054	3,383	-9.7%
Culture and recreation	2,433	2,465	-	-	2,433	2,465	-1.3%
General administration	358	1,144	-	-	358	1,144	-68.7%
Interest on long-term debt	343	207	-	-	343	207	65.7%
Business-type activities expenses							
Water	-	-	5,795	4,500	5,795	4,500	28.8%
Sewer	-	-	5,067	5,007	5,067	5,007	1.2%
Marina and Launch Ramp	-	-	393	333	393	333	18.0%
Total expenses	33,165	32,718	11,255	9,840	44,420	42,558	4.4%
Change in net assets before transfers	1,402	4,160	945	2,406	2,347	6,566	-64.3%
Transfers	(40)	(540)	40	540	-	-	-
Change in net assets	1,362	3,620	985	2,946	2,347	6,566	-64.3%
Net assets at beginning of year	82,346	80,351	47,175	44,229	129,521	124,580	32.0%
Restatement at January 1	-	(1,625)	-	-	-	(1,625)	-
Net assets at end of year	\$83,708	\$82,346	\$48,160	\$47,175	\$131,868	\$129,521	1.8%

Net assets for governmental activities increased \$1,361,278 primarily due to strong local income and property tax collections and continued tight cost controls. Business-type activities saw an increase in net assets of \$985,630, down from last year's increase of \$2,945,927.

Governmental Activities

The following table (*Net Cost of Selected City Functions*) presents the cost of each of the City's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid specifically related to the function). The net cost reflects the portion of costs funded by local tax dollars and other general resources.

- The operational cost of all governmental activities during 2007 was \$33,166,525.
- The net cost that City taxpayers paid for these activities through local taxes was \$15,771,809, or 48% of the total.
- The remaining cost was paid by user charges to those who directly benefit from the programs or by state and federal grants and contributions

Net Cost of Selected City Functions
(in thousands of dollars)

	Total Cost of Services		% Change	Net Cost of Services		% Change
	2007	2006		2007	2006	2007-2006
Governmental activities						
Public safety	\$12,802	\$13,059	-2.0%	\$11,476	\$11,678	-1.7%
Community and economic development	3,054	3,383	-9.7%	620	675	-8.1%
Culture and recreation	2,433	2,465	-1.3%	1,801	425	323.8%
Highways, streets and bridges	7,272	5,672	28.2%	773	(1,508)	-151.3%
Public works	2,989	3,090	-3.3%	2,554	2,454	4.1%
All other	4,615	5,049	-8.6%	3,257	3,575	-8.9%
Total governmental activities	\$33,165	\$32,718	1.4%	\$20,481	\$17,299	18.4%

Business-Type Activities

The financial goal of the City's business-type activities (i.e. water, sewer and marina operations) is to operate on a more or less "break-even" basis without making significant profit or needing general tax subsidies. For 2007, the City's total business-type activities realized an overall increase in net assets of \$985,630.

Most of the \$873,278 increase is attributable to Water Fund operations which experienced strong sales and lower than anticipated costs in 2007. Sewer Fund net assets increased \$92,803 as higher than expected wastewater treatment costs largely offset the effects of a mid-year user rate increase. Marina and Launch Ramp Fund net assets decreased \$73,740 as the struggling economy continued to impact boating activity in the area.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The fund financial statements provide detailed information about the major City funds, not the City as a whole. The City's major funds for 2007 were the General Fund, the Major Street and Trunkline Fund and Local Street Fund, and the Public Improvement Fund.

General Fund Highlights

The General Fund receives the most public attention since it is where local tax revenues are accounted for and where the most visible municipal services such as police, fire and parks are funded. The City reforecasts its General Fund budget on a quarterly basis to take into account changing economic conditions and policy priorities. The following table shows the General Fund year-end fund balance for the last five years.

Year	Year-End Fund Balance	Year-to-Year % Change	Prior Year's Expenditures and Other Uses	Fund Balance as a % of Prior Year Expenditures (Policy Target = 10%)
2007	\$2,920,632	+8.6%	\$ 24,498,778	11.92%
2006	2,690,039	+6.8%	23,658,227	11.37%
2005	2,519,605	+3.0%	23,388,020	10.77%
2004	2,445,191	+0.5%	23,705,334	10.31%
2003	2,431,418	-13.4%	23,971,536	10.14%

Actual 2007 General Fund expenditures were \$714,309 less than the final amended budget amount. Most of this variance resulted from budgeted contingency reserves that were not used and from position vacancies and other operating savings as the City continued to manage its way through a difficult economy. Significant budget amendments made during the year included:

- City Attorney – amended to account for legal costs incurred as result of several development initiatives.
- Parks Maintenance – amended to increased maintenance costs resulting from completion of the lakeshore bike trail system.
- Capital Outlay – amended to account for necessary improvements to the police locker room not foreseen in the original budget.

General Fund revenues for 2007 were \$652,643 higher than the final amended budget. This positive variance is almost entirely attributable to higher than expected local income tax collections.

The favorable variances on both the revenue and expenditure sides of the budget allowed the City to make several year-end transfers to other funds including: \$250,000 to the Budget Stabilization Fund, \$300,000 the Sidewalk Replacement Fund, \$200,000 to the Major Street Fund and, \$150,000 to the State Grants Fund.

Major and Local Street Fund Highlights

The Major and Local Street Funds account for all of the City's street construction and maintenance activities. Primary funding comes from the State of Michigan. During 2007, the fund balance of the Major Street and Trunkline Fund increased \$461,032 due to a \$200,000 transfer from the General Fund and higher than anticipated grant revenues. The Local Street Fund balance increased \$741,680 during 2007 due mostly to the unanticipated early payoff of a large special assessment.

Public Improvement Fund Highlights

The Public Improvement Fund is used to account for the financing of large scale general-purpose projects not readily accounted for in other funds. Resources come from the sale of land, annual transfers from the General Fund and periodic issuance of long-term debt. In 2007, the fund balance of the Public Improvement Fund decreased \$2,691,274 as proceeds from bonds issued in late 2006 were spent on construction of a new downtown fire station.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2007, the City and its component units had invested \$139,775,629 in a variety of capital assets, including land, equipment, buildings, water and sewer lines, and vehicles. Note D of the notes to the basic financial statements provides detailed information on the City's capital asset investment.

The City's largest capital asset project during 2007 was construction of a new \$4.0 million Central Fire Station.

Long-Term Debt

At year-end 2007, the City had \$31,974,002 in bonds and other long-term obligations outstanding. This represents a decrease of 10% from the prior year. The City did not issue new debt during 2007.

Additional information concerning the City's long-term debt is presented in Note I to the basic financial statements.

Bond Ratings

The City's limited full faith and credit bonds (i.e. bonds guaranteed by the City's general taxing powers) presently carry a Standard & Poors rating of "A".

City's Long Term Debt – Bonds and Other Obligations
(In thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2007	2006	2007	2006	2007	2006	2007-2006
Due within one year	\$1,224	\$1,468	\$2,330	\$2,308	\$3,554	\$3,776	-5.9%
Due in more than one year	<u>9,083</u>	<u>10,043</u>	<u>19,337</u>	<u>21,629</u>	<u>28,420</u>	<u>31,672</u>	-10.3%
Total bonds & other obligations	\$10,307	\$11,511	\$21,667	\$23,937	\$31,974	\$35,448	-9.8%

In addition to direct City debt, component units such as the Downtown Development Authority (DDA) and Local Development Finance Authority (LDFA) had outstanding debt totaling \$8,543,719 at year-end as shown in the table below. Debt issued by these component units typically is secured by the limited full faith and credit of the City and so is an important consideration in assessing the City's overall fiscal health. Additional information concerning component units' long-term debt is presented in Note I to the basic financial statements and is summarized as follows:

Component Unit Long Term Debt – Bonds and Other Obligations
(In thousands of dollars)

	Downtown Finance Authority		Local Development Finance Authority		Total		Total Percentage Change
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007-2006</u>
Due within one year	\$210	\$200	\$80	\$80	\$ 290	\$ 280	3.6%
Due in more than one year	<u>3,695</u>	<u>3,905</u>	<u>4,559</u>	<u>4,638</u>	<u>8,254</u>	<u>8,543</u>	-3.4%
Total bonds & other obligations	\$3,905	\$4,105	\$4,639	\$4,718	\$8,544	\$8,823	-3.2%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's fiscal year 2008 capital budget anticipates spending \$8,408,250 for capital projects, principally street improvements, water and sewer system improvements, and scheduled equipment replacements. These improvements will be funded through grants and revenues generated by operations. For 2008, the only new debt anticipated is a \$250,000 low interest loan from the State of Michigan for cleanup of a brownfield site. Although the loan will be made to the City, it will be secured and repaid by the private developer of the brownfield site.

From an operations standpoint, the City's 2008 budget plan is to maintain current service levels with no new expenditure initiatives.

To fund operations, the City depends on five major sources of revenue: local income taxes, local property taxes, state-shared revenues, state street funds, and water and sewer utility fees. Together, these five income sources account for about three-quarters of the City's total revenues. Meaningful discussion of the City's financial outlook needs to center on these major income sources.

Local Income Tax

The City income tax was approved by voters in 1993 and now is the primary source of funding for police, fire, parks and other general operations. The income tax rate is 1% on City residents and ½ of 1% on non-residents working in the City. The income tax provides key advantages for core cities such as Muskegon. First, it allows the City to regionalize its tax structure by taxing non-residents who work here and use City services. Second, it allows the City to benefit from development occurring outside City limits because City residents employed by non-City employers pay income taxes. Finally, the income tax generates revenue from employees working at hospitals, churches, government agencies, colleges and other institutions traditionally exempt from paying property taxes. This is particularly important for Muskegon since six of the ten largest income tax sources are such institutions.

Income tax revenues increased from \$7,425,173 in 2006 to \$7,618,461 for 2007 (+2.6%). For 2008, the City is conservatively estimating income tax revenues at \$6,900,000. The following table shows the makeup of the City's income tax base:

Category	Number of Payers	2007 Amount Paid	Percent of Total	Average Amount Paid 2007	Average Amount Paid 2006
City Resident	7,308	\$ 2,903,361	39%	\$ 397	\$ 391
Non-Resident	13,983	3,548,550	48%	254	248
Corporate	1,850	1,166,550	13%	631	539
Total	23,141	\$7,618,461	100%	\$ 329	\$316

Local Property Tax

The City's 2007 property tax millage consisted of 11 mills: 8.5 mills for general operations and 2.5 mills levied for sanitation. City charter authorizes a general operating millage up to 10 mills and state law permits a maximum sanitation millage of 3 mills. Millage rates are applied to the taxable value of property in the City to arrive at the City's property tax levy. As shown below, the City's property values have grown modestly over the last few years. For 2008, the City is projecting \$7,708,000 in property taxes, a 4.9% increase over the \$7,345,550 collected in 2007.

Year	Real	Personal	Total	Percent Change
2007	\$739,050,597	\$143,249,691	\$882,300,288	+3.1%
2006	706,285,650	149,374,300	855,659,950	+2.9%
2005	673,785,278	158,140,600	831,925,878	+0.3%
2004	661,233,389	168,106,228	829,339,617	-1.2%
2003	661,692,712	177,348,400	839,041,112	+1.6%

State Shared Revenues

State shared sales tax revenues represent about twenty-percent of total General Fund revenue. The City's state shared revenue allocation is made up of two approximately equal parts. The constitutional component is a fixed percentage of total state sales tax collections that is allocated to cities on a per capita basis and that cannot be reduced by the legislature. The statutory component is determined by a complex formula and is subject to adjustment through the State's budget process. Both constitutional and statutory components depend, of course, on overall state sales tax collections. Over the last several years, state shared revenues have fallen sharply due to the faltering economy and to executive order budget cuts in the statutory share. The City's recent state shared revenue history is summarized below:

Year	State Shared Revenues	Percent Change
2007	\$4,475,462	-1.8%
2006	4,556,801	-0.1%
2005	4,592,852	-1.1%
2004	4,645,348	-5.9%
2003	4,938,861	-7.8%

Continued erosion of the state shared revenue component constitutes the single biggest threat to the stability of City finances at this time. Due to the local income tax,

Muskegon is somewhat less dependent on this revenue source than most Michigan cities.

For 2008, the City projects \$4,487,972 based on current information available from the state. This is little changed from the \$4,475,462 received during 2007.

Street Funds

The State also returns to the City a share of gasoline tax revenues to help fund maintenance and construction of major and local streets within the City. These revenues have not suffered to the extent that general state sales tax revenues have:

Year	Street Revenues from State	Percent Change
2007	\$3,288,098	-0.2%
2006	3,297,183	-0.7%
2005	3,319,131	-4.1%
2004	3,459,503	+9.2%
2003	3,166,406	-1.7%

For 2008, the City is projecting a modest increase in street funds from the State of Michigan.

Water and Sewer Fees

From a government-wide entity perspective, combined water and sewer fees represent the City's largest income stream totaling \$11,509,536 in 2007. Charges to customers are based on the amount of metered services used times rates periodically set by the City Commission. During 2007, sewer rates were increased as result of higher wastewater treatment and debt service charges enacted by Muskegon County. A further sewer rate increase may be needed in 2008 as Muskegon County embarks on a costly sewer forcemain replacement project.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report, need additional financial information, or wish to obtain separate financial statements for the City's component units, contact the City's Finance Department at (231) 724-6713 or by e-mail (finance@shorelinecity.com).

FINANCIAL STATEMENTS

City of Muskegon
STATEMENT OF NET ASSETS (DEFICITS)
December 31, 2007

ASSETS

	Governmental activities	Business-type activities	Total	Component units
CURRENT ASSETS				
Cash and investments	\$ 14,877,978	\$ 4,617,823	\$ 19,495,801	\$ 82,919
Receivables	8,837,772	3,174,958	12,012,730	447,884
Due from other governmental units	3,165,400	79,536	3,244,936	-
Internal balances	(1,497,970)	1,497,970	-	-
Inventories	23,335	139,292	162,627	-
Prepaid items	351,575	32,007	383,582	-
Total current assets	25,758,090	9,541,586	35,299,676	530,803
NONCURRENT ASSETS				
Restricted assets	-	822,559	822,559	-
Capital assets, net				
Nondepreciable	17,422,935	2,198,882	19,621,817	400,000
Depreciable	58,926,883	57,733,651	116,660,534	3,093,278
Access rights, net	-	152,639	152,639	-
Bond issuance costs, net	144,465	86,661	231,126	111,104
Special assessments receivable	2,001,930	-	2,001,930	-
Total noncurrent assets	78,496,213	60,994,392	139,490,605	3,604,382
Total assets	104,254,303	70,535,978	174,790,281	4,135,185

LIABILITIES AND NET ASSETS (DEFICITS)

CURRENT LIABILITIES				
Accounts payable and accrued liabilities	1,670,460	426,915	2,097,375	44,900
Due to other governmental units	94,864	282,042	376,906	83,172
Unearned revenue	8,473,896	-	8,473,896	447,884
Bonds and other obligations, due within one year	1,224,000	2,330,207	3,554,207	290,000
Total current liabilities	11,463,220	3,039,164	14,502,384	865,956
NONCURRENT LIABILITIES				
Bonds and other obligations, less amounts due within one year	9,083,329	19,336,466	28,419,795	8,253,719
Total liabilities	20,546,549	22,375,630	42,922,179	9,119,675
NET ASSETS (DEFICITS)				
Invested in capital assets, net of related debt	68,059,626	39,356,966	107,416,592	(1,034,337)
Restricted for:				
Streets and highways	4,141,124	-	4,141,124	-
Debt service	-	822,559	822,559	-
Perpetual care				
Expendable	84,413	-	84,413	-
Non-expendable	1,260,166	-	1,260,166	-
Unrestricted	10,162,425	7,980,823	18,143,248	(3,950,153)
Total net assets (deficits)	\$ 83,707,754	\$ 48,160,348	\$ 131,868,102	\$ (4,984,490)

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF ACTIVITIES
For the year ended December 31, 2007

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets					
	Expenses	Program Revenue		Primary Government		Component units
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities
Primary government						
Governmental activities						
Public representation services	\$ 925,124	\$ 199,759	\$ -	\$ -	\$ (725,365)	\$ -
Administrative services	783,713	287,011	3,000	-	(493,702)	-
Financial services	2,205,041	744,109	60,000	-	(1,400,932)	-
Public safety	12,802,488	1,224,062	102,535	-	(11,475,891)	-
Public works	2,989,433	407,569	-	27,835	(2,554,029)	-
Highways, streets and bridges	7,272,288	372,133	3,256,050	2,871,578	(772,527)	-
Community and economic development	3,054,087	356,051	1,756,195	321,794	(620,047)	-
Culture and recreation	2,433,020	454,154	51,499	126,473	(1,800,894)	-
General administration	358,225	64,366	-	-	(293,859)	-
Interest on long-term debt	343,106	-	-	-	(343,106)	-
Total governmental activities	33,166,525	4,109,214	5,229,279	3,347,680	(20,480,352)	-
Business-type activities						
Sewer	5,066,693	5,179,095	-	-	-	112,402
Water	5,795,279	6,569,228	-	-	-	773,949
Marina and Launch Ramp	392,994	281,679	-	-	-	(111,315)
Total business-type activities	11,254,966	12,030,002	-	-	-	775,036
Total primary government	\$ 44,421,491	\$ 16,139,216	\$ 5,229,279	\$ 3,347,680	(20,480,352)	(19,705,316)
Component units						
Local Development Finance Authority I	\$ -	\$ -	\$ -	\$ -	-	-
Local Development Finance Authority II	-	-	-	-	-	-
Local Development Finance Authority III	385,497	-	-	175,000	-	(210,497)
Downtown Development Authority	230,372	-	-	-	-	(230,372)
Tax Increment Finance Authority	60,000	-	-	-	-	(60,000)
Total component units	\$ 675,869	\$ -	\$ -	\$ 175,000	-	(500,869)
General revenues						
Property taxes					8,014,102	562,196
Income taxes					7,757,707	-
Cable franchises					297,200	-
Grants and contributions not restricted to specific programs					4,475,462	-
Unrestricted investment earnings					1,247,520	6,829
Miscellaneous					88,035	-
Gain on sale of capital asset					1,604	-
Transfers					(40,000)	-
Total general revenues and transfers					21,841,630	569,025
Change in net assets					1,361,278	68,156
Net assets (deficit) at January 1, 2007, as restated					82,346,476	(5,052,646)
Net assets (deficit) at December 31, 2007					\$ 83,707,754	\$ - (4,984,490)

The accompanying notes are an integral part of this statement.

City of Muskegon
BALANCE SHEET
Governmental Funds
December 31, 2007

	General Fund	Major Street and Trunkline Fund	Local Street Fund	Public Improvement Fund	Other governmental funds	Total governmental funds
ASSETS						
Cash and investments	\$ 4,460,842	\$ 649,026	\$ 347,163	\$ 2,216,483	\$ 3,521,897	\$ 11,195,411
Receivables						
Accounts and loans	260,643	18,435	12,382	900	438,026	730,386
Property taxes	5,419,284	-	-	-	-	5,419,284
Income taxes	1,118,831	-	-	-	-	1,118,831
Special assessments	-	1,227,155	634,538	-	533,717	2,395,410
Due from other governmental units	823,387	480,017	997,173	-	864,822	3,165,399
Due from other funds	-	-	-	-	997,007	997,007
Prepaid items	170,410	11,382	9,670	-	-	191,462
Total assets	<u>\$ 12,253,397</u>	<u>\$ 2,386,015</u>	<u>\$ 2,000,926</u>	<u>\$ 2,217,383</u>	<u>\$ 6,355,469</u>	<u>\$ 25,213,190</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 615,595	\$ 85,273	\$ 5,765	\$ 32,945	\$ 36,300	\$ 775,878
Accrued liabilities	571,139	37,029	18,540	-	9,177	635,885
Due to other governmental units	-	62,463	-	32,401	-	94,864
Due to other funds	-	-	-	-	997,007	997,007
Deferred revenue	8,146,031	1,032,116	586,711	1,000	709,967	10,475,825
Total liabilities	<u>9,332,765</u>	<u>1,216,881</u>	<u>611,016</u>	<u>66,346</u>	<u>1,752,451</u>	<u>12,979,459</u>
Fund balances						
Reserved for:						
Prepaid items	170,410	11,382	9,670	-	-	191,462
Capital projects	-	-	-	1,665,361	1,194,416	2,859,777
Perpetual care	10,000	-	-	-	1,250,166	1,260,166
Unreserved						
Designated, reported in capital projects funds	-	-	-	485,676	150,000	635,676
Undesignated, reported in						
General Fund	2,740,222	-	-	-	-	2,740,222
Special revenue funds	-	1,157,752	1,380,240	-	1,924,023	4,462,015
Permanent funds	-	-	-	-	84,413	84,413
Total fund balances	<u>2,920,632</u>	<u>1,169,134</u>	<u>1,389,910</u>	<u>2,151,037</u>	<u>4,603,018</u>	<u>12,233,731</u>
Total liabilities and fund balances	<u>\$ 12,253,397</u>	<u>\$ 2,386,015</u>	<u>\$ 2,000,926</u>	<u>\$ 2,217,383</u>	<u>\$ 6,355,469</u>	<u>\$ 25,213,190</u>

The accompanying notes are an integral part of this statement.

City of Muskegon
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**

December 31, 2007

Total fund balance—governmental funds		\$ 12,233,731
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of capital assets	\$ 116,065,893	
Accumulated depreciation	<u>(42,239,334)</u>	73,826,559
Bond issuance costs are not capitalized and amortized in the governmental funds.		
Bond issuance costs	210,974	
Accumulated amortization	<u>(66,509)</u>	144,465
Other receivables in governmental activities is not reported in the governmental funds.		525,000
Accrued interest in governmental activities is not reported in the governmental funds.		(62,800)
Special assessment revenue is not recognized until it is receivable in the current period and therefore is shown as deferred revenue in the governmental funds.		2,001,929
Long-term liabilities in governmental activities are not due and payable in the current period and are not reported in the governmental funds.		
Bonds and notes payable	(8,959,400)	
Compensated absences	<u>(1,257,492)</u>	(10,216,892)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are reported with governmental activities in the Statement of Net Assets.		
Net assets of governmental activities in the Statement of Net Assets		<u>5,255,762</u>
		<u><u>\$ 83,707,754</u></u>

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Governmental Funds
 For the year ended December 31, 2007

	General Fund	Major Street and Trunkline Fund	Local Street Fund	Public Improvement Fund	Other governmental funds	Total governmental funds
REVENUES						
Taxes	\$ 15,420,032	-	-	\$ -	-	\$ 15,420,032
Licenses and permits	1,115,518	-	-	-	-	1,115,518
Intergovernmental revenues						
Federal						
State	84,162	1,108,348	192,000	-	1,871,468	3,255,978
Local	4,493,835	3,825,191	846,397	-	270,962	9,436,385
Charges for services	60,000	-	-	-	-	60,000
Fines and forfeitures	2,224,999	370,376	13,382	40,592	73,545	2,722,894
Interest and rental income	585,402	-	-	-	21,143	606,545
Other	605,027	116,227	243,947	198,398	185,220	1,348,819
	350,770	272,291	708,106	-	216,100	1,547,267
Total revenues	24,939,745	5,692,433	2,003,832	238,990	2,638,438	35,513,438
EXPENDITURES						
Current						
Public representation services	927,320	-	-	-	-	927,320
Administrative services	644,913	-	-	-	-	644,913
Financial services	2,231,519	-	-	-	-	2,231,519
Public safety	12,854,432	-	-	-	48,383	12,902,815
Public works	2,768,906	-	-	-	-	2,768,906
Highways, streets and bridges	-	4,462,763	2,042,152	-	-	6,504,915
Community and economic development	894,879	-	-	-	-	894,879
Culture and recreation	2,251,093	-	-	-	3,024	2,254,117
Other governmental functions	350,385	-	-	-	-	350,385
Debt service						
Principal	-	640,000	-	271,921	330,000	1,241,921
Interest and fees	208,859	28,638	-	20,302	66,778	324,577
Capital outlay	65,578	-	-	2,918,824	2,699,255	5,683,657
Total expenditures	23,197,884	5,131,401	2,042,152	3,211,047	3,147,440	36,729,924
Excess of revenues over (under) expenditures	1,741,861	561,032	(38,320)	(2,972,057)	(509,002)	(1,216,486)
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of capital assets	-	-	-	126,736	159,416	286,152
Transfers in	91,658	200,000	780,000	154,047	700,833	1,926,538
Transfers out	(1,602,926)	(300,000)	-	-	(91,658)	(1,994,584)
Total other financing sources (uses)	(1,511,268)	(100,000)	780,000	280,783	768,591	218,106
Net change in fund balances	230,593	461,032	741,680	(2,691,274)	259,589	(998,380)
Fund balances at January 1, 2007	2,690,039	708,102	648,230	4,842,311	4,343,429	13,232,111
Fund balances at December 31, 2007	\$ 2,920,632	\$ 1,169,134	\$ 1,389,910	\$ 2,151,037	\$ 4,603,018	\$ 12,233,731

The accompanying notes are an integral part of this statement.

City of Muskegon
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

For the year ended December 31, 2007

Net change in fund balances—total governmental funds	\$ (998,380)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities, these costs are depreciated and amortized over their estimated useful lives, respectively.	
Depreciation and amortization expense	\$ (3,733,208)
Capital outlay	<u>2,092,744</u>
Governmental funds report the entire proceeds from the sale of capital assets as revenue, but the Statement of Activities reports only the gain or loss on the sale of the capital assets.	(137,131)
Revenue reported in the Statement of Activities that does not provide current financial resources are not reported as revenue in the governmental funds.	(140,000)
Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	1,242,099
Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.	(2,600)
Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.	(57,068)
Governmental funds recognize special assessments as revenue as they become current, however they are recognized in full when levied in the Statement of Net Assets.	(1,289,580)
The internal service funds are used by management to charge the costs of certain activities to individual funds. The net change of the internal service funds is reported with governmental activities.	
Change in net assets of governmental activities	<u>651,194</u>
	<u>\$ 1,361,278</u>

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF NET ASSETS
Proprietary Funds
December 31, 2007

ASSETS

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Sewer	Water	Marina and Launch Ramp	Total	
CURRENT ASSETS					
Cash and investments	\$ 767,541	\$ 3,829,773	\$ 20,509	\$ 4,617,823	\$ 3,682,566
Receivables					
Accounts	1,256,636	1,239,152	4,240	2,500,028	650,791
Contracts	674,930	-	-	674,930	-
Due from other governmental units	-	75,191	4,345	79,536	-
Inventories	28,701	110,591	-	139,292	23,335
Prepaid items	12,656	18,620	731	32,007	160,113
Total current assets	2,740,464	5,273,327	29,825	8,043,616	4,516,805
NONCURRENT ASSETS					
Restricted assets	-	822,559	-	822,559	-
Capital assets					
Land	16,188	103,500	22,562	142,250	65,000
Land improvements	-	-	1,888,965	1,888,965	121,648
Buildings, improvements and systems	18,588,769	60,730,542	2,322,488	81,641,799	1,559,334
Machinery and equipment	39,722	1,293,123	-	1,332,845	7,363,193
Construction in progress	774,974	1,281,658	-	2,056,632	-
Less accumulated depreciation	(6,185,895)	(19,020,124)	(1,923,939)	(27,129,958)	(6,585,916)
Net capital assets	13,233,758	44,388,699	2,310,076	59,932,533	2,523,259
Access rights, net	152,639	-	-	152,639	-
Bond issuance costs, net	-	86,661	-	86,661	-
Total noncurrent assets	13,386,397	45,297,919	2,310,076	60,994,392	2,523,259
Total assets	16,126,861	50,571,246	2,339,901	69,038,008	7,040,064
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	8,234	211,998	6,015	226,247	162,417
Accrued liabilities	26,453	171,936	2,279	200,668	33,478
Due to other governmental units	256,567	25,475	-	282,042	-
Bonds and other obligations, due within one year	1,232,907	1,097,000	300	2,330,207	15,000
Total current liabilities	1,524,161	1,506,409	8,594	3,039,164	210,895
NONCURRENT LIABILITIES					
Bonds and other obligations, less amounts due within one year	59,633	19,275,145	1,688	19,336,466	75,437
Total liabilities	1,583,794	20,781,554	10,282	22,375,630	286,332
NET ASSETS					
Invested in capital assets, net of related debt	12,840,120	24,206,770	2,310,076	39,356,966	2,523,259
Restricted for debt service	-	822,559	-	822,559	-
Unrestricted	1,702,947	4,760,363	19,543	6,482,853	4,230,473
Total net assets	14,543,067	\$ 29,789,692	\$ 2,329,619	46,662,378	\$ 6,753,732
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				1,497,970	
Net assets of business-type activities				\$ 48,160,348	

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 Proprietary Funds
 For the year ended December 31, 2007

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Sewer	Water	Marina and Launch Ramp	Total	
OPERATING REVENUES					
Charges for services	\$ 5,091,215	\$ 6,418,321	\$ 248,004	\$ 11,757,540	\$ 8,087,546
Other	87,880	150,907	33,675	272,462	148,155
Total operating revenues	5,179,095	6,569,228	281,679	12,030,002	8,235,701
OPERATING EXPENSES					
Administration	296,393	495,303	22,680	814,376	290,568
Insurance premiums and claims	-	-	-	-	3,967,287
Wastewater treatment	4,138,818	-	-	4,138,818	-
Filtration plant operations	-	1,418,009	-	1,418,009	-
Water distribution	-	1,491,337	-	1,491,337	-
Other operations	-	-	241,760	241,760	2,850,308
Depreciation and amortization	659,905	1,784,768	131,017	2,575,690	568,841
Total operating expenses	5,095,116	5,189,417	395,457	10,679,990	7,677,004
Operating income (loss)	83,979	1,379,811	(113,778)	1,350,012	558,697
NONOPERATING REVENUES (EXPENSES)					
Investment earnings	34,045	136,511	38	170,594	145,290
Gain on sale of capital assets	-	-	-	-	12,000
Interest expense	(25,221)	(642,594)	-	(667,815)	-
Total nonoperating revenue (expenses)	8,824	(506,083)	38	(497,221)	157,290
Income (loss) before transfers	92,803	873,728	(113,740)	852,791	715,987
Transfers in	-	-	40,000	40,000	28,046
Change in net assets	92,803	873,728	(73,740)	892,791	744,033
Net assets at January 1, 2007	14,450,264	28,915,964	2,403,359		6,009,699
Net assets at December 31, 2007	\$ 14,543,067	\$ 29,789,692	\$ 2,329,619		\$ 6,753,732
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds				92,839	
Change in net assets of business-type activities				\$ 985,630	

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended December 31, 2007

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Sewer	Water	Marina and Launch Ramp	Total	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 5,137,181	\$ 6,530,267	\$ 291,376	\$ 11,958,824	\$ 73,472
Receipts from interfund services provided	24,456	201,631	-	226,087	8,087,546
Payments to suppliers	(3,129,849)	(1,438,158)	(124,647)	(4,692,654)	(5,639,056)
Payments to employees	(726,951)	(1,193,849)	(108,274)	(2,029,074)	(941,195)
Payments for interfund services used	(652,716)	(714,875)	(31,612)	(1,399,203)	(698,509)
Net cash provided by operating activities	652,121	3,385,016	26,843	4,063,980	882,258
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in	-	-	40,000	40,000	28,046
Interfund borrowing	-	-	(46,372)	(46,372)	-
Net cash provided by (used for) noncapital financing activities	-	-	(6,372)	(6,372)	28,046
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases of capital assets	(281,888)	(673,992)	-	(955,880)	(276,602)
Principal paid on capital debt	(506,822)	(1,045,000)	-	(1,551,822)	-
Interest paid on capital debt	(25,221)	(632,036)	-	(657,257)	-
Proceeds from sale of capital assets	-	-	-	-	27,380
Net cash used for capital and related financing activities	(813,931)	(2,351,028)	-	(3,164,959)	(249,222)
CASH FLOW FROM INVESTING ACTIVITIES					
Investment earnings	34,045	136,511	38	170,594	145,290
Net increase (decrease) in cash and investments	(127,765)	1,170,499	20,509	1,063,243	806,372
Cash and investments at January 1, 2007	895,306	3,481,833	-	4,377,139	2,876,194
Cash and investments at December 31, 2007	\$ 767,541	\$ 4,652,332	\$ 20,509	\$ 5,440,382	\$ 3,682,566
Reconciliation of cash and investments to the statement of net assets					
Cash and investments	\$ 767,541	\$ 3,829,773	\$ 20,509	\$ 4,617,823	\$ 3,682,566
Restricted cash and investments	-	822,559	-	822,559	-
	\$ 767,541	\$ 4,652,332	\$ 20,509	\$ 5,440,382	\$ 3,682,566
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ 83,979	\$ 1,379,811	\$ (113,778)	\$ 1,350,012	\$ 558,697
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation and amortization expense	659,905	1,784,768	131,017	2,575,690	568,841
Change in assets and liabilities					
Receivables, net	(17,458)	162,670	9,697	154,909	(169,453)
Inventories	(114)	(101)	-	(215)	(6,157)
Prepaid items	(2,152)	333	(63)	(1,882)	66,494
Accounts payable	(88,040)	61,482	(1,440)	(27,998)	(119,517)
Accrued liabilities	16,001	(3,947)	1,410	13,464	(16,647)
Net cash provided by operating activities	\$ 652,121	\$ 3,385,016	\$ 26,843	\$ 4,063,980	\$ 882,258

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF FIDUCIARY NET ASSETS
 Fiduciary Funds
 December 31, 2007

ASSETS	Pension Trust Funds	Agency Funds
Cash and investments	\$ -	\$ 6,260,508
Receivables		
Accounts	-	2,767
Property taxes	-	13,913,118
Total assets	-	\$ 20,176,393
LIABILITIES		
Accounts payable	-	\$ 179,063
Due to other governmental units	-	19,801,433
Deposits held for others	-	195,897
Total liabilities	-	\$ 20,176,393
NET ASSETS		
Held in trust for pension benefits	-	
Held in trust for healthcare benefits	-	
Total net assets	\$ -	

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Fiduciary Funds
For the year ended December 31, 2007

	Pension Trust Funds
ADDITIONS	
Contributions	
Employer	\$ 503,329
Plan members	72,158
Total contributions	<u>575,487</u>
Investment earnings	
Interest and dividends	77,244
Net increase in fair value of investments	<u>325,594</u>
Total net investment earnings	<u>402,838</u>
Total additions	<u>978,325</u>
DEDUCTIONS	
Plan assets transferred to Municipal Employees Retirement System	33,404,632
Administrative expenses	<u>121,736</u>
Total deductions	<u>33,526,368</u>
Change in net assets	(32,548,043)
Net assets at January 1, 2007	<u>32,548,043</u>
Net assets at December 31, 2007	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF NET ASSETS (DEFICITS)
Discretely Presented Component Units
December 31, 2007

	ASSETS				
	Local Development Finance Authority I	Local Development Finance Authority II	Local Development Finance Authority III	Downtown Development Authority	Tax Increment Finance Authority
					Total
CURRENT ASSETS					
Cash and investments	\$ 335	\$ 24,393	\$ 27,275	\$ 24,564	\$ 82,919
Property taxes receivable	-	-	24,925	365,501	447,884
Total current assets	335	24,393	52,200	390,065	530,803
NONCURRENT ASSETS					
Capital assets, net					
Nondepreciable	-	-	400,000	-	400,000
Depreciable	-	-	3,093,278	-	3,093,278
Net capital assets	-	-	3,493,278	-	3,493,278
Bond issuance costs, net	-	-	111,104	-	111,104
Total noncurrent assets	-	-	3,604,382	-	3,604,382
Total assets	335	24,393	3,656,582	390,065	4,135,185
LIABILITIES AND NET ASSETS (DEFICITS)					
CURRENT LIABILITIES					
Accrued liabilities	-	-	33,800	11,100	44,900
Due to other governmental units	-	-	-	83,172	83,172
Deferred revenue	-	-	24,925	365,501	447,884
Bonds and other obligations, due within one year	-	-	80,000	210,000	290,000
Total current liabilities	-	-	138,725	669,773	865,956
NONCURRENT LIABILITIES					
Bonds and other obligations, less amounts due within one year	-	-	4,558,719	3,695,000	8,253,719
Total liabilities	-	-	4,697,444	4,364,773	9,119,675
NET ASSETS (DEFICITS)					
Invested in capital assets, net of related debt	-	-	(1,034,337)	-	(1,034,337)
Unrestricted	335	24,393	(6,525)	(3,974,708)	(3,950,153)
Total net assets (deficits)	\$ 335	\$ 24,393	\$ (1,040,862)	\$ (3,974,708)	\$ (4,984,490)

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF ACTIVITIES
Discretely Presented Component Units
For the year ended December 31, 2007

	Program Revenue	Net (Expense) Revenue and Changes in Net Assets					
		Local Development Finance Authority I	Local Development Finance Authority II	Local Development Finance Authority III	Downtown Development Authority	Tax Increment Finance Authority	Total
Functions/Programs	Expenses						
Local Development Finance Authority I	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Economic development	-	-	-	-	-	-	-
Local Development Finance Authority II							
Economic development	-	-	-	-	-	-	-
Local Development Finance Authority III							
Economic development	179,820	-	-	(179,820)	-	-	(179,820)
Interest on long-term debt	205,677	175,000	-	(30,677)	-	-	(30,677)
Total Local Development Finance Authority III	385,497	175,000	-	(210,497)	-	-	(210,497)
Downtown Development Authority							
Economic development	158	-	-	-	(158)	-	(158)
Distributions to other taxing authorities	83,172	-	-	-	(83,172)	-	(83,172)
Interest on long-term debt	147,042	-	-	-	(147,042)	-	(147,042)
Total Downtown Development Authority	230,372	-	-	-	(230,372)	-	(230,372)
Tax Increment Finance Authority							
Economic development	60,000	-	-	-	-	(60,000)	(60,000)
Total discretely presented component units	\$ 675,869	\$ 175,000	\$ -	\$ (210,497)	\$ (230,372)	\$ (60,000)	\$ (500,869)
General revenues							
Property taxes	-	-	-	28,901	476,460	56,835	562,196
Unrestricted investment income	12	1,177	1,177	4,881	-	759	6,829
Total general revenues	12	1,177	1,177	33,782	476,460	57,594	569,025
Change in net assets	12	1,177	1,177	(176,715)	246,088	(2,406)	68,156
Net assets (deficits) at January 1, 2007	323	23,216	23,216	(864,147)	(4,220,796)	8,758	(5,052,646)
Net assets (deficits) at December 31, 2007	\$ 335	\$ 24,393	\$ 24,393	\$ (1,040,862)	\$ (3,974,708)	\$ 6,352	\$ (4,984,490)

The accompanying notes are an integral part of this statement.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Muskegon (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Reporting Entity

The City of Muskegon was incorporated October 6, 1919, under the provisions of the Home Rule Act of the State of Michigan. The City is a municipal corporation governed by an elected mayor and six-member City Commission and is administered by a city manager appointed by the City Commission. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government. Each discretely presented component unit has a December 31 fiscal year end.

Blended Component Unit

Building Authority. The Authority is governed by a three-member board comprised of the City Manager, City Attorney and City Finance Director. For financial reporting purposes, the Building Authority is reported as if it were part of the City's operations since its sole purpose is to acquire and lease property to the City. Currently, there is no outstanding Building Authority indebtedness.

Discretely Presented Component Units

Downtown Development Authority (DDA). The Authority's sole purpose is the collection of property tax incremental revenues, the issuance and repayment of debt and the construction of public facilities to promote and facilitate economic growth in the downtown district. Members of the DDA are appointed by the City Commission and the Authority is fiscally dependent on the City since the City Commission approves the DDA budget and must approve any debt issuance. The DDA is presented as a governmental fund type.

Tax Increment Finance Authority (TIFA). The Authority's sole purpose is the collection of property tax incremental revenues and promotion of economic development activities (including issuance of debt) in a sub-section of the downtown district. Members of the TIFA are appointed by the City Commission and the Authority is fiscally dependent on the City since the City Commission approves the TIFA budget and must approve any debt issuance. The TIFA is presented as a governmental fund type.

Local Development Finance Authority (LDFA). The City has created three separate local development finance authority districts under the aegis of the LDFA to promote and facilitate economic growth in the Port City Industrial Park, the Medendorp Industrial Park, and the SmartZone Hi-Tech Park. The LDFA's sole purpose is the collection of property tax incremental revenues and the construction of public facilities. Members of the LDFA are appointed by the City Commission and the Authority is fiscally dependent on the City since the City Commission approves budgets and must approve any debt issuance. The LDFA districts are presented as governmental fund types.

Complete financial statements of the component units can be obtained from their administrative offices, 933 Terrace Street, Muskegon, Michigan 49443.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Related Organizations

The following organizations are related to the City's financial reporting entity:

Muskegon Hospital Finance Authority. The Muskegon Hospital Finance Authority was created by the City of Muskegon in accordance with the laws of the State of Michigan. Members of the Hospital Finance Authority are appointed by the City but the City is not financially accountable for the Authority and therefore the Authority is excluded from the accompanying financial statements. The Hospital Finance Authority's sole purpose is to issue tax-exempt debt for the benefit of Hackley and Mercy-General hospitals, both of which are located within the City. The Authority has no assets or financial activity and does not prepare financial statements. The Hospital Finance Authority has no taxing power. As of December 31, 2007, there was no outstanding debt issued by the Hospital Finance Authority. The City is not obligated in any manner for repayment of debt issued by the Hospital Finance Authority, as any debt is payable solely from contractual payments from the hospitals.

Muskegon Housing Commission. The Muskegon Housing Commission was created by the City of Muskegon in accordance with the laws of the State of Michigan. Members of the Housing Commission are appointed by the City but the City is not financially accountable for the Commission and therefore the Commission is excluded from the accompanying financial statements. The Housing Commission's main purpose is to administer activities that provide adequate housing facilities for low-income families and the elimination of housing conditions that are detrimental to the public peace, health, safety, and welfare. The Commission's policy is to prepare its financial statements on the basis prescribed by the Department of Housing and Urban Development. Accordingly, the summary information below (which is required by federal regulations), is not intended to present financial position and results of operations in conformity with generally accepted accounting principles. Summary financial information for the fiscal year ended September 30, 2006, the date of its latest audited financial statements is as follows:

Total assets	\$ 5,366,437
Total liabilities	<u>(181,640)</u>
Total fund equity	<u>\$ 5,184,797</u>
Total operating income	\$ 332,224
Total operating expenses	(1,858,179)
Total nonoperating revenues	<u>1,584,835</u>
Net income	<u>\$ 58,880</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements excepting agency funds which have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursements due for expenditure-driven grants are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Income taxes, property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within 60 days of the end of the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street and Trunkline Fund accounts for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of major streets within the City.

The Local Street Fund accounts for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of local streets within the City.

The Public Improvement Fund accounts for grants, private contributions, sale of property and other financial resources used to finance various capital projects.

The City reports the following three major proprietary funds:

The Sewer Fund accounts for user charges and for operating expenses and debt service of the City's sewer system.

The Water Fund accounts for user charges and for operating expenses and debt service of the City's water system.

The Marina and Launch Ramp Fund accounts for user fees collected and operating expenses for the Hartshorn Marina and boat launch ramp facilities.

Additionally, the City reports the following fund types:

Internal Service Funds account for internal engineering services for City projects; the purchase, operation, and depreciation of all City owned equipment; the payment of insurance claims and benefits; and the operation, maintenance, and depreciation of the City's public service building to other funds of the government on a cost reimbursement basis.

The Pension Trust Funds are used to account for the assets held by the City as trustee for the employee retirement systems.

The Agency Funds are used to account for assets held by the City as an agent for another organization or individual.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The City reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the City intends to hold the investment until maturity.

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

The City's three pension trust funds are also authorized to invest in corporate bonds, common stock and certain other investment vehicles. The City's deposits and investments are in accordance with statutory authority.

The City maintains a cash and investment pool that is available for use by all funds and component units. Each fund type's or component unit's portion of this pool is displayed on the combined balance sheet as "cash and investments". Cash overdrafts represent a deficit position in the pooled account and have been classified as amounts due to other funds. In addition, certain City trust funds including the Policemen and Firemen Retirement Trust Fund, the General Employees Retirement Trust Fund and the Cemetery Perpetual Care Trust Fund have investments which are separately held from those of other City funds.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Deposits and Investments—Continued

For the purpose of the statement of cash flows, the City considers all assets held in the cash and investment pool to be cash and cash equivalents because the investments are not identifiable to the specific funds and the assets can be withdrawn at any time, similar to a demand deposit account.

In accordance with State law, interest earned in the Budget Stabilization Fund is recorded in the General Fund.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The City bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each December 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the City to the County for collection. The County advances the City all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the City. Taxes levied on December 1 are recorded as receivables and deferred revenue. Taxes are recognized as revenue (and become available for appropriation) in the calendar year following the levy.

The 2006 state taxable value for real/personal property of the City totaled approximately \$681,737,000 of which approximately \$18,377,000 was captured by the component units. The ad valorem taxes levied consisted of 8.5, 2.5, and .0732 mills for the City's general operating, sanitation, and community promotion purposes. These amounts are recognized in the General Fund with captured amounts shown in the TIFA, LDFA, and DDA component units.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Restricted Assets

Certain proceeds of the Water Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include all such items regardless of their acquisition date or amount. The City was able to obtain the historical cost of the initial reporting of these assets by recording the actual costs incurred by the City.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	5-25
Leasehold improvements	10-25
Buildings and improvements	25-50
Water and sewage mains	40-100
Furniture, vehicles and equipment	5-20
Infrastructure	15-50
Shared improvements	20

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Compensated Absences

City employees are granted vacation and sick leave in varying amounts based on length of service and employee group. Unused vacation and sick leave days are paid to employees upon termination under limits that vary by employee group. The liability for these compensated absences is accrued when incurred in the government-wide and proprietary fund financial statements. The current portion of this debt is estimated based on historical trends. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

Comparative Data

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative (i.e. presentation of prior year's totals by fund type) data has not been presented in each of the statements since its inclusion would make the statements unduly complex and difficult to read. Also, certain items in the 2006 financial statements have been reclassified to conform to the 2007 presentation.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and all special revenue funds. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to September 1, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at City Hall to obtain public comments.
- c. Prior to September 25, the budget is legally adopted by the City Commission.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Commission.

The appropriated budget is prepared by fund, function and department. The City Manager may transfer line-item budget amounts within departments. Transfers of appropriations between departments require the approval of the City Commission. The legal level of budgetary control is the department level for the General Fund and the total expenditure or “fund” level for all other funds. The City Commission made several supplemental budgetary appropriations throughout the year.

Excess of Expenditures Over Appropriations

During the year ended December 31, 2007, actual expenditures exceeded appropriations for arena administration by \$94,134 and transfers out by \$904,880 in the General Fund. In the Major Street and Trunkline Fund, total actual expenditures exceeded appropriations by \$70,364. These overexpenditures were funded with available fund balance.

Fund Deficits

As of December 31, 2007, the DDA Fund had an unreserved fund deficit of \$58,608 and the HOME Fund had an unreserved fund deficit of \$231,354. The deficits will be eliminated through future operations and interfund transfers.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE C—DEPOSITS AND INVESTMENTS

As of December 31, 2007, the City had the following investments:

Investment Type	<u>Fair value</u>	<u>Weighted average maturity (Months)</u>	<u>Moody's</u>	<u>Percent</u>
Money market funds	\$ 15,458,260	1.56	AAA	70.0 %
External investment pool	93,632	1.80	not rated	0.4
US Agency obligations	<u>6,546,700</u>	<u>10.80</u>	AAA	<u>29.6</u>
Total fair value	<u>\$ 22,098,592</u>			<u>100.0 %</u>
Portfolio weighted average maturity		<u>4.30</u>		

The City voluntarily invests certain excess funds in an external investment pool (Pool). The Pool is an external investment pool of "qualified" investments for Michigan municipalities. The Pool is not regulated nor registered with the SEC. The fair value of the City's investments is the same as the fair value of the Pool.

Interest rate risk. The City has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At least 10% of the City's total portfolio must be in instruments maturing in 30 days or less and the weighted average maturity cannot be over three years. US Agency obligations, federal instrumentality securities and time certificates of deposit cannot have a final maturity exceeding five years, repurchase agreements cannot have a final maturity exceeding one year, commercial paper cannot have a final maturity exceeding 270 days and eligible bankers' acceptances cannot have a final maturity exceeding 180 days.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices.

Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the City investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The City has a concentration of credit risk policy that limits investment in commercial paper, eligible bankers acceptances and time certificates of deposit to 25% each of the total portfolio. More than 5 percent of the City's investments are in U.S. Agency Obligations issued by the Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation and the Federal Home Loan Bank. These investments are 13.65, 6.84 and 6.89 percent of the City's investments, respectively.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of December 31, 2007, \$4,675,695 of the City's bank balance of \$4,975,695 was exposed to custodial credit risk because it was uninsured and uncollateralized. The City's investment policy sets certain credit requirements that a bank must meet for the City to deposit funds in it.

Custodial credit risk - investments. This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has a custodial credit risk policy for investments that requires that all investments that are held with a third-party for safekeeping be in the City's name.

Foreign currency risk. The City is not authorized to invest in investments which have this type of risk.

Restricted Assets

Restrictions are placed on assets by bond ordinance and City Commission action. At December 31, 2007, restricted cash and investments in the Water Fund of \$822,559 was restricted by bond ordinance.

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007 was as follows:

	Balance January 1, 2007	Additions	Deductions	Balance December 31, 2007
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 12,508,194	\$ -	\$ 137,131	\$ 12,371,063
Construction in progress	8,333,615	5,679,834	8,961,577	5,051,872
Total capital assets, not being depreciated	20,841,809	5,679,834	9,098,708	17,422,935
Capital assets, being depreciated:				
Land improvements	2,391,247	1,727,072	-	4,118,319
Leasehold improvements	287,295	17,070	-	304,365
Buildings and improvements	17,139,741	3,679,336	3,383	20,815,694
Furniture, vehicles and equipment	11,749,500	304,657	448,987	11,605,170
Infrastructure	62,305,825	3,656,162	630,303	65,331,684
Shared improvements	5,576,901	-	-	5,576,901
Total capital assets, being depreciated	99,450,509	9,384,297	1,082,673	107,752,133

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE D—CAPITAL ASSETS—Continued

	Balance January 1, 2007	Additions	Deductions	Balance December 31, 2007
Governmental activities—Continued				
Less accumulated depreciation:				
Land improvements	\$ 316,527	\$ 67,453	\$ -	\$ 383,980
Leasehold improvements	51,479	26,674	-	78,153
Buildings and improvements	12,158,486	312,159	3,383	12,467,262
Furniture, vehicles and equipment	8,705,441	648,126	433,607	8,919,960
Infrastructure	23,293,231	2,952,684	630,303	25,615,612
Shared improvements	1,081,438	278,845	-	1,360,283
Total accumulated depreciation	<u>45,606,602</u>	<u>4,285,941</u>	<u>1,067,293</u>	<u>48,825,250</u>
Total capital assets, being depreciated, net	<u>53,843,907</u>	<u>5,098,356</u>	<u>15,380</u>	<u>58,926,883</u>
Capital assets, net	<u>\$ 74,685,716</u>	<u>\$ 10,778,190</u>	<u>\$ 9,114,088</u>	<u>\$ 76,349,818</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 142,250	\$ -	\$ -	\$ 142,250
Construction in progress	3,058,119	954,819	1,956,306	2,056,632
Total capital assets, not being depreciated	3,200,369	954,819	1,956,306	2,198,882
Capital assets, being depreciated:				
Land improvements	1,901,973	-	13,008	1,888,965
Buildings and systems	79,715,065	1,944,866	18,132	81,641,799
Machinery and equipment	1,646,741	12,501	326,397	1,332,845
Total capital assets, being depreciated	83,263,779	1,957,367	357,537	84,863,609
Less accumulated depreciation:				
Land improvements	1,574,685	38,043	13,008	1,599,720
Buildings and systems	22,709,175	2,159,585	18,132	24,850,628
Machinery and equipment	939,295	66,712	326,397	679,610
Total accumulated depreciation	<u>25,223,155</u>	<u>2,264,340</u>	<u>357,537</u>	<u>27,129,958</u>
Total capital assets, being depreciated, net	<u>58,040,624</u>	<u>(306,973)</u>	<u>-</u>	<u>57,733,651</u>
Capital assets, net	<u>\$ 61,240,993</u>	<u>\$ 647,846</u>	<u>\$ 1,956,306</u>	<u>\$ 59,932,533</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE D—CAPITAL ASSETS—Continued

Depreciation

Depreciation expense was charged to functions as follows:

Governmental activities:

Administrative services	\$ 53,502
Public safety	124,434
Public works	84,251
Highways, streets and bridges	3,185,374
Community and economic development	79,818
Culture and recreation	184,905
General administration	4,816
Internal Service Fund depreciation is charged to the various programs based on their usage of the assets	<u>568,841</u>
	<u><u>\$ 4,285,941</u></u>

Business-type activities:

Water	\$ 1,778,696
Sewer	354,627
Marina and Launch Ramp	<u>131,017</u>
	<u><u>\$ 2,264,340</u></u>

	Balance January 1, 2007	Additions	Deductions	Balance December 31, 2007
Component units:				
Capital assets, not being depreciated:				
Land	\$ 400,000	\$ -	\$ -	\$ 400,000
Capital assets, being depreciated:				
Building and improvements	3,798,258	-	-	3,798,258
Less accumulated depreciation:				
Buildings and improvements	<u>532,332</u>	<u>172,648</u>	<u>-</u>	<u>704,980</u>
Total accumulated depreciation	<u>532,332</u>	<u>172,648</u>	<u>-</u>	<u>704,980</u>
Total capital assets, being depreciated, net	<u>3,265,926</u>	<u>(172,648)</u>	<u>-</u>	<u>3,093,278</u>
Capital assets, net	<u><u>\$ 3,665,926</u></u>	<u><u>\$ (172,648)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,493,278</u></u>

Depreciation

Depreciation expense was charged to economic development.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE E—ACCESS RIGHTS

Access rights activity for the year ended December 31, 2007 was as follows:

	Balance January 1, 2007	Additions	Deductions	Balance December 31, 2007
Business-type activities				
Access rights	\$ 5,216,575	\$ -	\$ 3,537,549	\$ 1,679,026
Less accumulated amortization	<u>1,221,110</u>	<u>305,277</u>	<u>-</u>	<u>1,526,387</u>
Access rights, net	<u>\$ 3,995,465</u>	<u>\$ (305,277)</u>	<u>\$ 3,537,549</u>	<u>\$ 152,639</u>

Amortization

Amortization expense was charged to sewer.

NOTE F—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended December 31, 2007 was as follows:

	Balance January 1, 2007	Additions	Deductions	Balance December 31, 2007
Governmental activities:				
Bond issuance costs	\$ 210,974	\$ -	\$ -	\$ 210,974
Less accumulated amortization	<u>50,401</u>	<u>16,108</u>	<u>-</u>	<u>66,509</u>
Bond issuance costs, net	<u>\$ 160,573</u>	<u>\$ (16,108)</u>	<u>\$ -</u>	<u>\$ 144,465</u>
Business-type activities:				
Bond issuance costs	\$ 270,814	\$ -	\$ -	\$ 270,814
Less accumulated amortization	<u>169,789</u>	<u>14,364</u>	<u>-</u>	<u>184,153</u>
Bond issuance costs, net	<u>\$ 101,025</u>	<u>\$ (14,364)</u>	<u>\$ -</u>	<u>\$ 86,661</u>

Amortization

Amortization expense was charged to functions as follows:

Governmental Activities:

Interest on long-term debt	<u>\$ 16,108</u>
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Business-type Activities:

Water	<u>\$ 14,364</u>
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City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE G—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of December 31, 2007 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Budget Stabilization Fund	Community Development Block Grant Fund	\$ 550,181
Budget Stabilization Fund	HOME Rehabilitation Fund	327,361
Budget Stabilization Fund	State Grants Fund	113,271
Budget Stabilization Fund	Lead Abatement Fund	6,194
		<u>\$ 997,007</u>

The outstanding balances between funds result from the payable funds having negative positions in the City's cash and investment pool.

Interfund transfers:

<u>Transfers in</u>	<u>Amount</u>	<u>Transfers out</u>	<u>Amount</u>
General Fund	\$ 91,658	State Grants Fund	\$ 11,473
		Cemetery Fund	80,185
	<u>91,658</u>		<u>91,658</u>
Major Street and Trunkline Fund	200,000	General Fund	1,602,926
Local Street Fund	480,000		
Budget Stabilization Fund	250,000		
Sidewalk Replacement Fund	300,000		
Public Improvement Fund	154,047		
State Grants Fund	150,833		
Marina and Launch Ramp Fund	40,000		
General Insurance Fund	28,046		
	<u>1,602,926</u>		<u>1,602,926</u>
Local Street Fund	300,000	Major Street and Trunkline Fund	300,000
	<u>\$ 1,994,584</u>		<u>\$ 1,994,584</u>

Each year, the General Fund transfers funds to the Major Street and Trunkline Fund, Local Street Fund, Sidewalk Replacement Fund and Public Improvement Fund to finance capital improvements. Other transfers between funds are made to meet grant matching requirements or other operational needs.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE H—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes	\$ -	\$ 8,146,031
Receivables	-	327,865
Special assessments	<u>2,001,929</u>	<u>-</u>
Total deferred revenue for governmental funds	<u>\$ 2,001,929</u>	<u>\$ 8,473,896</u>

NOTE I—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the City for the year ended December 31, 2007.

	Balance January 1, <u>2007</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2007</u>	Due within <u>one year</u>
Governmental activities:					
General obligation debt	\$ 5,382,407	\$ -	\$ (975)	\$ 5,383,382	\$ 45,000
Intergovernmental					
contractual obligations	1,356,900	-	220,000	1,136,900	220,000
Michigan Transportation					
Fund obligations	1,031,153	-	641,153	390,000	390,000
Special assessment obligations	1,875,000	-	330,000	1,545,000	290,000
Installment purchase					
agreement	556,039	-	51,921	504,118	54,000
Compensated absences	<u>1,309,976</u>	<u>1,298,587</u>	<u>1,260,634</u>	<u>1,347,929</u>	<u>225,000</u>
Governmental activity					
long-term liabilities	<u>\$ 11,511,475</u>	<u>\$ 1,298,587</u>	<u>\$ 2,502,733</u>	<u>\$ 10,307,329</u>	<u>\$ 1,224,000</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE I—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

	Balance January 1, 2007	Additions	Reductions	Balance December 31, 2007	Due within one year
Business-type activities:					
Revenue obligation	\$ 21,304,923	\$ -	\$ 1,036,333	\$ 20,268,590	\$ 1,080,000
Intergovernmental					
contractual obligations	2,454,101	-	1,232,894	1,221,207	1,221,207
Compensated absences	178,576	159,945	161,645	176,876	29,000
Business-type activity					
long-term liabilities	<u>\$ 23,937,600</u>	<u>\$ 159,945</u>	<u>\$ 2,430,872</u>	<u>\$ 21,666,673</u>	<u>\$ 2,330,207</u>
Component units:					
Revenue obligations	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000	\$ -
General obligation debt	7,823,140	-	279,421	7,543,719	290,000
Component unit long-					
term liabilities	<u>\$ 8,823,140</u>	<u>\$ -</u>	<u>\$ 279,421</u>	<u>\$ 8,543,719</u>	<u>\$ 290,000</u>
Governmental activities:					
General obligation debt:					
\$5,400,000 Limited Tax General Obligation Bonds of					
2006 payable in annual installments of \$45,000 to					
\$350,000 through October 1, 2032; interest at 4% to 4.2%					\$ 5,400,000
Less bond discount					(16,618)
Intergovernmental contractual obligations:					
\$1,276,900 Non-interest bearing State of Michigan urban land					
assembly loan of 1999 payable in annual installments of					
\$200,000 to \$276,900 through October 31, 2009					476,900
\$700,00 Non-interest bearing State of Michigan urban land					
assembly loan of 2005 payable in annual installments of					
\$20,000 to \$120,000 through September 1, 2015					660,000

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE I—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Governmental activities:—Continued

Michigan Transportation Fund obligations:

\$2,245,000 Michigan Transportation Fund bonds of 2002 for street improvements; final payment of \$390,000 due June 1, 2008; interest rate at 3.13%	\$ 390,000
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Special assessment obligations:

\$1,495,000 Special assessment improvement bonds of 1998 payable in annual installments of \$60,000 to \$95,000 through April 1, 2009; interest at 4%	155,000
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\$825,000 Special assessment improvement bonds of 2000 payable in annual installments of \$70,000 to \$85,000 through April 1, 2010; interest at 4.8% to 5%	240,000
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\$1,575,000 Capital improvement bonds of 2003 payable in annual installments of \$110,000 to \$150,000 through June 1, 2016; interest at 2.88% to 4.05%	1,150,000
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Installment purchase agreement:

\$605,824 Note payable to bank in annual installments of \$54,148 to \$72,658 through April 1, 2015; interest at 3.83%	504,118
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Compensated absences

	8,959,400
	1,347,929
	\$ 10,307,329

Business-type activities:

Revenue obligations:

\$5,465,000 Water supply system bonds of 1993 payable in two installments of \$450,000 from May 1, 2012 through May 1, 2013; interest at 4.5%	\$ 900,000
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Less bond discount	(9,574)
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\$9,575,000 Water supply system bonds of 1999 payable in annual installments of \$130,000 to \$800,000 through May 1, 2019; interest at 4.05% to 4.75%	6,665,000
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Less bond discount	(46,836)
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\$13,900,000 Drinking Water State Revolving Fund loan of 2004 payable in annual installments of \$590,000 to \$840,000 through October 1, 2025; interest at 2.13%	12,760,000
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City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE I—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Business-type activities:—Continued

Intergovernmental contractual obligations

\$6,990,000 Contractual obligation of 2002 for County wastewater debt; final payment of \$1,221,207 due June 2008; interest at 5%	\$ <u>1,221,207</u>
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21,489,797

Compensated absences

176,876

\$ 21,666,673

Component units:

Revenue obligations:

\$1,000,000 Non-interest bearing Downtown Development Authority promissory note to Muskegon County payable August 30, 2019	\$ 1,000,000
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General obligation debt:

\$4,005,000 Downtown Development Authority tax increment refunding bonds of 2001 payable in annual installments of \$210,000 to \$335,000 through June 1, 2018; interest at 4% to 5%	2,905,000
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\$4,725,000 Local Development Finance Authority tax increment bonds of 2002 payable in annual installments of \$80,000 to \$400,000 through November 1, 2025; interest at 3.50% to 4.85%	4,645,000
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Less bond discount	<u>(6,281)</u>
	<u><u>\$ 8,543,719</u></u>

For governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

The special assessment bonds are backed by the limited full faith and credit of the City.

The County of Muskegon wastewater contracts payable represent agreements with Muskegon County relating to the construction of sewage treatment facilities. To construct these facilities, the County issued bonds which local municipalities are obligated to repay. The City has recorded the liability for its portion of the County bonds which are to be repaid by the access rights fee. Access rights are also recorded and are amortized over 20 years. The contractual obligation is secured by the full faith and credit of the City. Current debt service requirements are funded by sewer revenues.

In 2005, the County of Muskegon began making improvements to the regional sewer treatment facilities. The project was funded with \$17,500,000 bonds issued through the State of Michigan Clean Water Revolving Fund Loan Program. The County operates the system and makes payments on the bonds with user charges to the local units. The City has pledged its limited tax full faith and credit for the payment of its portion of the debt should user charges collected by the County be insufficient to make the debt payments. The City's portion of the debt on December 31, 2007 was approximately \$5,900,000. The City is unaware of any circumstances that would cause a shortfall in the near future.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE I—LONG-TERM DEBT—Continued

The \$4,725,000 Local Development Finance Authority (LDFA) tax increment bonds of 2002 are partially guaranteed by the Community Foundation for Muskegon County. If LDFA tax increment revenues are not sufficient to cover debt service costs in any year, the Foundation has agreed to pay one-half of such shortfall, up to \$75,000 annually. This commitment extends through December 31, 2016.

The City was in compliance in all material respects with all the revenue bond ordinances at December 31, 2007.

Annual debt service requirements to maturity for debt outstanding as of December 31, 2007 follows:

Year ending December 31,	Governmental activities		Business-type activities		Component units	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 999,148	\$ 297,794	\$ 2,301,207	\$ 652,322	\$ 290,000	\$ 331,839
2009	663,371	277,183	1,110,000	567,463	300,000	320,219
2010	338,894	264,040	1,150,000	533,023	310,000	307,811
2011	371,420	252,989	1,185,000	496,787	320,000	294,604
2012	379,055	243,374	1,220,000	458,514	425,000	280,834
2013-2017	1,479,130	1,065,093	6,745,000	1,655,136	2,990,000	1,065,853
2018-2022	1,300,000	881,125	5,360,000	583,470	3,025,000	438,741
2023-2027	1,695,000	571,325	2,475,000	105,825	890,000	88,030
2028-2032	1,750,000	219,450	-	-	-	-
	<u>\$ 8,976,018</u>	<u>\$ 4,072,373</u>	<u>\$ 21,546,207</u>	<u>\$ 5,052,540</u>	<u>\$ 8,550,000</u>	<u>\$ 3,127,931</u>

Annual debt service requirements to maturity by type of debt as of December 31, 2007 follows:

Year ending December 31,	General Obligation Debt		Revenue Obligations	
	Governmental activities	Component units	Business-type activities	Component units
2008	\$ 264,145	\$ 621,839	\$ 1,680,378	\$ -
2009	267,345	620,219	1,677,463	-
2010	285,345	617,811	1,683,023	-
2011	282,545	614,604	1,681,787	-
2012	279,745	705,834	1,678,514	-
2013-2017	1,356,725	4,055,853	8,400,136	-
2018-2022	2,181,125	2,463,741	5,943,470	1,000,000
2023-2027	2,266,325	978,030	2,580,825	-
2028-2032	1,969,450	-	-	-
	<u>\$ 9,152,750</u>	<u>\$ 10,677,931</u>	<u>\$ 25,325,596</u>	<u>\$ 1,000,000</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE I—LONG-TERM DEBT—Continued

Year ending December 31,	Intergovernmental		Installment Purchase Agreement	Special Assessment	Michigan Transportation Fund Obligations
	Governmental activities	Business-type activities	Governmental activities	Governmental activities	Governmental activities
2008	\$ 220,000	\$ 1,273,151	\$ 72,419	\$ 344,285	\$ 396,093
2009	296,900	-	72,624	303,685	-
2010	20,000	-	72,838	224,751	-
2011	120,000	-	73,059	148,805	-
2012	120,000	-	73,291	149,393	-
2013-2017	360,000	-	221,369	606,129	-
2018-2022	-	-	-	-	-
2023-2027	-	-	-	-	-
2028-2032	-	-	-	-	-
	<u>\$ 1,136,900</u>	<u>\$ 1,273,151</u>	<u>\$ 585,600</u>	<u>\$ 1,777,048</u>	<u>\$ 396,093</u>

NOTE J—DESIGNATED FUND BALANCE

Unreserved fund balances designated for specific purposes as of December 31, 2007 were as follows:

Public Improvement Fund

Designated for fire equipment replacement	\$ 461,090
Designated for Pere Marquette Park improvements	<u>24,586</u>
	485,676

State Grants Fund

Designated for Smith Ryerson grant match	<u>150,000</u>
	<u>\$ 635,676</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE K—OTHER INFORMATION

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City manages its liability and property risk by participating in the Michigan Municipal Risk Management Authority (MMRMA), a public entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to MMRMA for its insurance coverage. The MMRMA is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. A \$100,000 deductible is maintained to place the responsibility for small charges with the City. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years. Changes in the fund's claim liability amount in 2007 and 2006 were as follows:

Year ended December 31,	Balance at beginning of year	Current year claims and changes in estimates	Claims payments	Balance at end of year
2007	\$ 90,394	\$ 108,961	\$ 155,230	\$ 44,125
2006	117,567	334,012	361,185	90,394

The City manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Fund (MMWCF), a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to MMWCF for its workers' compensation coverage. The MMWCF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City is self-insured for employee health care benefits for those employees selecting the City plan over other options. Under this plan, the General Insurance Fund provides coverage for up to a maximum of \$350,000 per covered individual's lifetime. As of December 31, 2007, the claims liability including incurred but not reported claims was \$20,735. A liability was recorded in the accompanying financial statements for the estimated claims liability. The claims liability was based on past experience, a review of pending claims and other social and economic factors. The above estimate was not discounted and there were no outstanding claims for which annuity contracts have been purchased in the claimant's name. No significant reductions in insurance coverage were made in the last fiscal year. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years. Changes in the fund's claim liability amount in 2007 and 2006 were as follows:

Year ended December 31,	Balance at beginning of year	Current year claims and changes in estimates	Claims payments	Balance at end of year
2007	\$ 103,901	\$ 1,350,547	\$ 1,433,713	\$ 20,735
2006	31,102	1,370,267	1,297,468	103,901

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE K—OTHER INFORMATION—Continued

Contingencies

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

The City is currently in negotiation with the Command Officers Association of Michigan and the Police Officers Labor Council unions regarding police wages and benefits retroactive to January 1, 2007. The City has accrued in the General Fund a reasonable estimate of costs.

Leases

The City leases an office facility under a noncancelable operating lease that expires June 2012 with the option by the tenant to renew the term of the lease for five successive periods of five years each. The City received rental income of \$6,180 for the year ended December 31, 2007. The future minimum rental income for this lease is as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2008	\$ 31,861
2009	32,171
2010	34,396
2011	34,058
2012	<u>16,860</u>
	<u>\$ 149,346</u>

NOTE L—PENSION PLANS

Defined Benefit Pension Plan

Plan Description. During the years ended December 31, 2007 and 2006, the City moved all of the retiree assets and corresponding actuarial liabilities for each of its employee groups from two single employer contributory pension plans maintained by the City to the Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan. The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the City. A copy of the complete financial report and required supplemental information can be obtained by writing to:

City of Muskegon
933 Terrace Street
Muskegon, MI 49443

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE L—PENSION PLANS—Continued

Defined Benefit Pension Plan—Continued

Funding Policy. City employees are required to contribute 5 to 6 percent to the Plan depending on employee contract. The City is required to contribute at an actuarially-determined rate depending upon employee group from 4.7 to 10.13 percent of covered wages.

Annual Pension Cost. For the year ended December 31, 2007, the City's annual pension cost was approximately \$819,000 which the City contributed. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 8.4 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Trend Information

<u>Year ended</u>	<u>Approximate Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/07	\$ 819,000	100 %	\$ -

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

(Dollars amounts in thousands)

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
12/31/07	\$ 86,157	\$ 83,118	\$ (3,039)	104 %	\$ 12,684	(24) %

Additional actuarial data is not available from MERS and will be provided in subsequent years.

Defined Contribution Pension Plan

The City also maintains a defined contribution plan offered by MERS and administered by the ICMA Retirement Corporation (ICMA), an independent third party. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investments. Depending on employee group, the Plan covers all City employees hired after January 2005 to July 2006 and those hired earlier who elected to convert from the defined benefit plan. The City is required to contribute 3 percent to 10 percent of a qualified employees' annual compensation each year depending on employee group. Qualified employees are required to contribute 0 percent to 6 percent of annual compensation depending on employee group. For the year ended December 31, 2007, City and employee contributions were approximately \$78,000 and \$28,000, respectively.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE L—PENSION PLANS—Continued

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided by Internal Revenue Code Section 401(f).

NOTE M—OTHER POST-EMPLOYMENT BENEFITS

Plan Description. During the years ended December 31, 2007, the City moved all of the retiree assets and corresponding actuarial liabilities for each of its employee groups from a single employer contributory postemployment healthcare plan maintained by the City to the retiree healthcare funding vehicle administered Municipal Employees Retirement System (MERS), an agent multiple-employer postemployment healthcare plan (OPEB). The retiree healthcare funding vehicle is established under the authority of section 115 of the IRS code and is exempt from taxation. The Plan provides health insurance to eligible retirees and their spouses. Act No. 149 of the Public Acts of 1999 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the City. A copy of the complete financial report and required supplemental information can be obtained by writing to:

City of Muskegon
933 Terrace Street
Muskegon, MI 49443

Funding Policy. Plan members are not required to contribute to the Plan. The City is required to contribute the annual required contribution of the employer (ARC) at an actuarially-determined rate which varies upon employee group from 3.9 to 9.4 percent of covered wages. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities (or funding excess) over a period not to exceed thirty years.

Annual OPEB Cost. For the year ended December 31, 2007, the City's OPEB cost was approximately \$1,326,000 which the City contributed.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE M—OTHER POST-EMPLOYMENT BENEFITS—Continued

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of Plan members not contributing to the Plan. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) an annual healthcare trend rate of 11 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after 10 years. Both rates assume include a 4.5 percent inflation assumption. The Plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2007 is 30 years.

Trend Information

<u>Year ended</u>	<u>Approximate Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net ARC Obligation</u>
12/31/07	\$ 1,326,000	100 %	\$ -

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress

(Dollars amounts in thousands)

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
12/31/07	\$ 13,831	\$ 29,722	\$ 15,891	46.5 %	\$ 13,290	120 %

Additional actuarial data is not available from MERS and will be provided in subsequent years.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE N—PRIOR PERIOD ADJUSTMENT

The capital assets of the governmental activities were restated to correct a misstatement in the depreciation of infrastructure in prior years.

	<u>Governmental Activities</u>
Net assets at January 1, 2007	\$ 83,971,012
Capital assets, net	<u>(1,624,536)</u>
Net assets at January 1, 2007, restated	<u>\$ 82,346,476</u>

NOTE O—SUBSEQUENT EVENTS

In January 2008, the City purchased an emergency generator for City Hall for approximately \$135,000.

Subsequent to year-end, the City approved various contracts for street and other infrastructure improvements for approximately \$2,151,000.

REQUIRED SUPPLEMENTARY INFORMATION

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
General Fund

For the year ended December 31, 2007
(with comparative actual amounts for the year ended December 31, 2006)

	2007				Variance with final budget- positive (negative)	2006
	Budgeted amounts		Actual			
	Original	Final				
REVENUES						
Taxes						
City income tax	\$	6,980,000	\$	7,000,000	\$	7,425,173
Property taxes		7,361,472		7,353,521		7,142,298
Industrial facilities taxes		351,828		351,828		396,366
Payments in lieu of taxes		89,000		89,000		88,871
Delinquent chargeback collected		12,000		12,000		-
Total taxes		14,794,300		14,806,349		15,052,708
Licenses and permits						
Business licenses		33,000		32,500		33,656
Liquor licenses		35,000		37,500		36,452
Cable TV fees		285,000		295,500		285,124
Housing licenses		120,000		75,000		55,623
Rental property registration		12,000		1,500		12,980
Burial permits		120,000		120,000		118,399
Building permits		225,000		325,000		306,791
Electrical permits		90,000		105,000		76,535
Plumbing permits		40,000		35,000		34,367
Mechanical permits		52,500		52,500		45,978
Cat licenses		2,500		2,850		3,115
Police gun registration		-		3		3
Total licenses and permits		1,015,000		1,082,353		1,009,023
Intergovernmental revenues						
Federal grants		88,325		84,993		172,881
State						
Grants		18,000		18,500		18,302
State shared revenue		4,628,616		4,479,345		4,556,801
Total intergovernmental revenues - State		4,646,616		4,497,845		4,575,103
Local		60,000		60,000		-

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
General Fund

For the year ended December 31, 2007
(with comparative actual amounts for the year ended December 31, 2006)

	2007			Variance with final budget- positive (negative)	2006
	Budgeted amounts		Actual		
	Original	Final			
Charges for services	\$	\$	\$	\$	\$
Tax administration fees	216,541	213,500	212,530	(970)	219,172
Utility administration fees	180,000	180,000	180,000	-	180,000
Downtown Development Authority administration fees	-	5,000	-	(5,000)	5,000
Reimbursement for elections	27,000	22,100	22,042	(58)	13,762
Indirect cost reimbursements	1,024,932	1,024,932	1,024,932	-	1,045,539
Site plan review fee	2,500	6,000	5,870	(130)	5,650
Sale of cemetery lots	26,600	38,200	38,182	(18)	27,190
Police miscellaneous	105,000	94,000	120,470	26,470	97,093
Police impound fees	45,000	45,000	43,234	(1,766)	49,206
Landlord's alert fee	300	300	220	(80)	355
Fire protection-state property	80,000	108,000	87,601	(20,399)	121,131
Zoning fees	15,000	9,000	10,362	1,362	13,352
Clerk fees	3,500	3,500	3,115	(385)	3,330
Clerk fees - passport fees	2,000	8,500	8,240	(260)	2,520
Tax abatement application fees	1,000	17,000	16,411	(589)	10,080
Treasurer fees	90,000	90,000	61,277	(28,723)	73,030
False alarm fees	12,000	12,000	12,525	525	14,130
Miscellaneous cemetery income	22,000	22,000	20,536	(1,464)	22,772
Senior transit program fees	9,000	9,000	9,254	254	10,131
Fire miscellaneous	25,000	5,000	3,494	(1,506)	3,763
Sanitation stickers	75,000	110,000	84,735	(25,265)	87,263
Lot cleanup fees	50,000	115,000	70,987	(44,013)	74,581
Reimbursements - lot mowing and demolitions	50,000	40,000	55,484	15,484	65,994
Special events reimbursements	115,000	120,000	92,041	(27,959)	96,691
Recreation program fees	30,000	40,000	41,457	1,457	78,877
Total charges for services	2,207,373	2,338,032	2,224,999	(113,033)	2,320,612

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
General Fund

For the year ended December 31, 2007
(with comparative actual amounts for the year ended December 31, 2006)

	2007			2006
	Budgeted amounts		Variance with	
	Original	Final	final budget- positive (negative)	Actual
Fines and forfeitures				
Income tax - penalty and interest	\$ 200,000	\$ 230,000	\$ 10,315	\$ 192,822
Late fees on current taxes	110,000	75,000	(36,069)	35,701
Interest on late invoices	2,000	2,000	151	2,112
Parking fines	110,000	120,000	(6,646)	87,060
Court fines	170,000	190,000	651	208,356
Total fines and forfeitures	592,000	617,000	(31,598)	526,051
Interest and rental income				
Investment earnings	275,000	325,000	131,224	416,856
Flea market	29,000	29,000	(6,936)	20,736
Farmers' market	32,000	37,500	2,825	34,719
City right of way rental	4,400	4,400	-	4,400
Arena events	50,000	-	-	137,977
Advertising	2,000	2,000	(2,000)	284
Fire station lease - Central Dispatch	-	6,180	-	-
Parking rentals	2,500	2,700	100	2,800
McGraft park rentals	45,000	45,000	(2,886)	44,008
Other park rentals	29,000	29,000	1,920	30,403
Total interest and rental income	468,900	480,780	124,247	692,183
Other				
Sale of land and assets	1,000	1,000	(1,000)	-
Police sale and auction proceeds	1,500	1,500	(1,500)	-
CDBG program reimbursements	188,000	205,000	20,149	240,143
Contributions	11,000	52,000	(1,501)	17,992
Contribution - Veteran's Park maintenance	17,250	17,250	1,078	17,977
Community Foundation for Muskegon County	-	13,000	(10,000)	11,675
Miscellaneous reimbursements	1,000	1,000	(1,000)	-
Miscellaneous and sundry	15,000	29,000	24,794	11,894
Total other	234,750	319,750	31,020	299,681
Total revenues	24,107,264	24,287,102	652,643	24,648,242

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
 General Fund

For the year ended December 31, 2007
 (with comparative actual amounts for the year ended December 31, 2006)

	2007			Variance with final budget- positive (negative)	2006
	Budgeted amounts		Actual		
	Original	Final			
EXPENDITURES					
Current					
Public representation services					
City commission	\$ 86,156	\$ 84,123	\$ 80,462	\$ 3,661	\$ 88,670
City promotions and public relations	9,029	12,729	11,696	1,033	5,402
City manager	218,617	220,800	213,848	6,952	209,693
Contributions to outside agencies	177,294	187,824	180,880	6,944	176,013
City attorney	402,695	440,000	440,434	(434)	424,117
Total public representation services	893,791	945,476	927,320	18,156	903,895
Administrative services					
Administration	172,692	131,725	126,444	5,281	159,841
City clerk	335,007	312,042	277,610	34,432	297,542
Civil service	184,068	188,609	163,761	24,848	175,899
Julia Hackley internships	-	5,374	5,374	-	4,350
Affirmative action	98,681	78,232	71,724	6,508	32,157
Total administrative services	790,448	715,982	644,913	71,069	669,789
Financial services					
Finance administration	421,292	420,922	423,512	(2,590)	430,314
Assessing	427,490	454,800	459,837	(5,037)	442,617
Arena administration	175,300	175,300	269,434	(94,134)	141,032
Income tax administration	358,668	381,668	373,433	8,235	335,776
Information systems	349,989	356,089	364,246	(8,157)	315,066
City treasurer	346,522	346,522	341,057	5,465	391,775
Total financial services	2,079,261	2,135,301	2,231,519	(96,218)	2,056,580
Public safety					
Police department	8,470,172	8,307,989	8,235,772	72,217	8,232,492
Fire department	3,759,363	3,777,363	3,652,524	124,839	3,719,404
Fire safety inspections	1,014,248	1,017,548	966,136	51,412	994,574
Total public safety	13,243,783	13,102,900	12,854,432	248,468	12,946,470

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
General Fund

For the year ended December 31, 2007
(with comparative actual amounts for the year ended December 31, 2006)

	2007			Variance with	2006
	Budgeted amounts		Actual	final budget- positive (negative)	Actual
	Original	Final			
Public works					
Street lighting	\$ 572,325	\$ 590,000	\$ 593,486	\$ (3,486)	\$ 563,184
Community event support	34,750	32,600	28,837	3,763	25,456
Senior citizen transit	54,306	57,708	59,824	(2,116)	51,039
General sanitation	1,664,506	1,666,006	1,649,488	16,518	1,650,354
Recycling	163,368	163,368	163,699	(331)	159,751
Storm water management	16,991	16,991	16,991	-	16,384
City hall maintenance	256,988	256,988	256,581	407	264,247
Total public works	2,763,234	2,783,661	2,768,906	14,755	2,730,415
Community and economic development					
Planning, zoning and economic development	460,865	501,565	462,113	39,452	437,715
Environmental services	353,251	353,251	332,766	20,485	325,496
Edison Landing subsidy	100,000	100,000	100,000	-	-
Total community and economic development	914,116	954,816	894,879	59,937	763,211
Culture and recreation					
Parks maintenance	1,232,919	1,353,670	1,340,824	12,846	1,231,852
McGraft park maintenance	54,306	50,000	46,376	3,624	69,399
General and inner city recreation programs	296,703	266,744	264,522	2,222	299,460
Cemeteries maintenance	547,563	572,581	545,975	26,606	528,446
Graffiti removal	4,792	4,792	3,213	1,579	2,751
Parking operations	7,500	7,500	6,605	895	13,522
Farmers' market and flea market	37,826	42,500	43,578	(1,078)	45,405
Total culture and recreation	2,181,609	2,297,787	2,251,093	46,694	2,190,835
Other governmental functions					
Insurance premiums	347,304	351,270	350,385	885	334,748
Other	400,000	350,000	-	350,000	222,802
Total other governmental functions	747,304	701,270	350,385	350,885	557,550

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
General Fund

For the year ended December 31, 2007
(with comparative actual amounts for the year ended December 31, 2006)

	2007			2006
	Budgeted amounts		Variance with	
	Original	Final	final budget- positive (negative)	Actual
Debt service				
Interest and fees	\$ 261,194	\$ 210,000	\$ 1,141	\$ 3,336
Capital outlay	-	65,000	(578)	5,435
Total expenditures	23,874,740	23,912,193	714,309	22,827,516
Excess of revenues over expenditures	232,524	374,909	1,366,952	1,820,726
OTHER FINANCING SOURCES (USES)				
Transfers in	195,000	225,000	(133,342)	20,970
Transfers out	(708,046)	(698,046)	(904,880)	(1,671,262)
Total other financing sources (uses)	(513,046)	(473,046)	(1,038,222)	(1,650,292)
Net change in fund balance	\$ (280,522)	\$ (98,137)	\$ 328,730	170,434
Fund balance at beginning of year			2,690,039	2,519,605
Fund balance at end of year			\$ 2,920,632	\$ 2,690,039

Note: Both budgets and actual figures are prepared in accordance with generally accepted accounting principles.

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
Major Street and Trunkline Fund
For the year ended December 31, 2007

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Intergovernmental revenues				
Federal	\$ 264,700	\$ 1,254,700	\$ 1,108,348	\$ (146,352)
State	4,143,269	4,143,269	3,825,191	(318,078)
Charges for services	300,000	175,000	370,376	195,376
Investment earnings	70,000	115,000	116,227	1,227
Other	250,000	250,000	272,291	22,291
Total revenues	5,027,969	5,937,969	5,692,433	(245,536)
EXPENDITURES				
Current				
Highways, streets and bridges	4,332,454	4,392,900	4,462,763	(69,863)
Debt service				
Principal	639,750	639,750	640,000	(250)
Interest and fees	28,387	28,387	28,638	(251)
Total expenditures	5,000,591	5,061,037	5,131,401	(70,364)
Excess of revenues over expenditures	27,378	876,932	561,032	(315,900)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	200,000	200,000
Transfers out	-	(600,000)	(300,000)	300,000
Total other financing sources (uses)	-	(600,000)	(100,000)	500,000
Net change in fund balance	\$ 27,378	\$ 276,932	461,032	\$ 184,100
Fund balance at January 1, 2007			708,102	
Fund balance at December 31, 2007			\$ 1,169,134	

Note: Both budgets and actual figures are prepared in accordance with generally accepted accounting principles.

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
 Local Street Fund
 For the year ended December 31, 2007

	Budgeted amounts		
	Original	Final	Actual
REVENUES			
Intergovernmental revenues			
Federal	\$ 1,300,000	\$ 1,515,000	\$ 192,000
State	844,797	844,797	846,397
Charges for services	5,000	16,000	13,382
Investment earnings	15,000	25,000	243,947
Other	150,000	600,000	708,106
Total revenues	2,314,797	3,000,797	2,003,832
			(996,965)
EXPENDITURES			
Current			
Highways, streets and bridges	2,766,437	3,263,000	2,042,152
Excess of revenues over (under) expenditures	(451,640)	(262,203)	(38,320)
			223,883
OTHER FINANCING SOURCES			
Transfers in	480,000	1,080,000	780,000
Net change in fund balance	\$ 28,360	\$ 817,797	741,680
			\$ (76,117)
Fund balance at January 1, 2007			648,230
Fund balance at December 31, 2007			\$ 1,389,910

Note: Both budgets and actual figures are prepared in accordance with generally accepted accounting principles.

OTHER SUPPLEMENTAL INFORMATION

DESCRIPTION OF OTHER GOVERNMENTAL FUNDS

Special Revenue Funds

The special revenue funds are used to account for the proceeds of special revenue sources that are legally restricted to expenditures for specific purposes.

Criminal Forfeitures – to account for receipts generated through the sale of assets seized through criminal court proceedings.

Budget Stabilization – to account for funds appropriated from the City's General Fund for the purpose of mitigating adverse affects on the City's budget from downturns in the business cycle.

Farmers' Market Improvement – to account for funds allocated for maintenance and improvements to the City's farmers' market facility.

Tree Replacement – to account for contributions and other revenues earmarked for tree replacement throughout the City.

Capital Projects Funds

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds and trust funds.

Sidewalk Replacement – to account for resources allocated for a multi-year city-wide sidewalk replacement program.

Michcon Remediation – to account for reimbursements received from Michcon Gas Company for environmental remediation of their former downtown site.

EDC Revolving Loan – to account for funds received upon repayment of Urban Development Action Grant loans and subsequently reloaned to small business enterprises.

Community Development Block Grant – to account for categorical grants received from the U. S. Department of Housing and Urban Development for the construction of major city public improvements and the rehabilitation of residential housing and other qualifying expenditures.

State Grants – to account for grant revenues received from the State of Michigan and earmarked for the purpose of improvements and/or rehabilitation of City property, environmental remediation at lakeshore sites or new infrastructure in the City's downtown.

HOME Rehabilitation – to account for grant revenues received from the U. S. Department of Housing and Urban Development for the purpose of providing housing assistance to low and moderate income households in the City.

DESCRIPTION OF OTHER GOVERNMENTAL FUNDS—CONTINUED

Capital Projects Funds—Continued

Arena Capital Improvements – to account for ticket revenue collections earmarked for large capital improvements and repairs to the L.C. Walker Arena.

Lead Abatement – to account for grant revenues received from the U. S. Department of Housing and Urban Development for the purpose of abatement of lead from homes in the City.

Permanent Funds

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Cemetery Perpetual Care – to account for charges for services collected and investment income earned and to account for transfers to the General Fund to partially cover cemetery care expenses.

City of Muskegon
COMBINING BALANCE SHEET
Other Governmental Funds
December 31, 2007

ASSETS					
	Total other governmental funds	Special Revenue Funds	Capital Projects Funds	Permanent Fund - Cemetery Perpetual Care	
Cash and investments	\$ 3,521,897	\$ 921,057	\$ 1,288,824	\$ 1,312,016	
Receivables					
Accounts and loans (net of allowance for uncollectibles)	438,026	5,959	409,504	22,563	
Special assessments	533,717	-	533,717	-	
Due from other governmental units	864,822	-	864,822	-	
Due from other funds	997,007	997,007	-	-	
Total assets	<u>\$ 6,355,469</u>	<u>\$ 1,924,023</u>	<u>\$ 3,096,867</u>	<u>\$ 1,334,579</u>	
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 36,300	\$ -	\$ 36,300	\$ -	
Accrued liabilities	9,177	-	9,177	-	
Due to other funds	997,007	-	997,007	-	
Deferred revenue	709,967	-	709,967	-	
Total liabilities	<u>1,752,451</u>	<u>-</u>	<u>1,752,451</u>	<u>-</u>	
Fund balances					
Reserved for:					
Capital projects	1,194,416	-	1,194,416	-	
Perpetual care	1,250,166	-	-	1,250,166	
Unreserved					
Designated, reported in capital projects funds	150,000	-	150,000	-	
Undesignated, reported in					
Special revenue funds	1,924,023	1,924,023	-	-	
Permanent funds	84,413	-	-	84,413	
Total fund balances	<u>4,603,018</u>	<u>1,924,023</u>	<u>1,344,416</u>	<u>1,334,579</u>	
Total liabilities and fund balances	<u>\$ 6,355,469</u>	<u>\$ 1,924,023</u>	<u>\$ 3,096,867</u>	<u>\$ 1,334,579</u>	

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Other Governmental Funds
For the year ended December 31, 2007

	Total other governmental funds	Special Revenue Funds	Capital Projects Funds	Permanent Fund - Cemetery Perpetual Care
REVENUES				
Intergovernmental revenues				
Federal	\$ 1,871,468	\$ -	\$ 1,871,468	\$ -
State	270,962	-	270,962	-
Charges for services	73,545	400	37,363	35,782
Fines and forfeitures	21,143	21,143	-	-
Investment earnings	185,220	9,378	88,544	87,298
Other	216,100	1,000	215,100	-
Total revenues	2,638,438	31,921	2,483,437	123,080
EXPENDITURES				
Current				
Public safety	48,383	48,383	-	-
Culture and recreation	3,024	3,024	-	-
Debt service				
Principal	330,000	-	330,000	-
Interest and fees	66,778	-	66,778	-
Capital outlay	2,699,255	-	2,699,255	-
Total expenditures	3,147,440	51,407	3,096,033	-
Excess of revenues over (under) expenditures	(509,002)	(19,486)	(612,596)	123,080
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	159,416	-	159,416	-
Transfers in	700,833	250,000	450,833	-
Transfers out	(91,658)	-	(11,473)	(80,185)
Total other financing sources (uses)	768,591	250,000	598,776	(80,185)
Net change in fund balances	259,589	230,514	(13,820)	42,895
Fund balances at January 1, 2007	4,343,429	1,693,509	1,358,236	1,291,684
Fund balances at December 31, 2007	\$ 4,603,018	\$ 1,924,023	\$ 1,344,416	\$ 1,334,579

City of Muskegon
COMBINING BALANCE SHEET
Other Special Revenue Funds
December 31, 2007

	Total other special revenue funds	Criminal Forfeitures	Budget Stabilization	Farmers' Market Improvement	Tree Replacement
ASSETS					
Cash and investments	\$ 921,057	\$ 132,202	\$ 752,993	\$ 26,755	\$ 9,107
Accounts receivable	5,959	5,959	-	-	-
Due from other funds	997,007	-	997,007	-	-
Total assets	<u>\$ 1,924,023</u>	<u>\$ 138,161</u>	<u>\$ 1,750,000</u>	<u>\$ 26,755</u>	<u>\$ 9,107</u>
FUND BALANCES					
Fund balances					
Unreserved	<u>\$ 1,924,023</u>	<u>\$ 138,161</u>	<u>\$ 1,750,000</u>	<u>\$ 26,755</u>	<u>\$ 9,107</u>

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Other Special Revenue Funds
For the year ended December 31, 2007

	Total other special revenue funds	Criminal Forfeitures	Budget Stabilization	Farmers' Market Improvement	Tree Replacement
REVENUES					
Charges for services	\$ 400	\$ -	\$ -	\$ -	\$ 400
Fines and forfeitures	21,143	21,143	-	-	-
Investment earnings	9,378	7,566	-	1,290	522
Other	1,000	-	-	-	1,000
Total revenues	31,921	28,709	-	1,290	1,922
EXPENDITURES					
Current					
Public safety	48,383	48,383	-	-	-
Culture and recreation	3,024	-	-	-	3,024
Total expenditures	51,407	48,383	-	-	3,024
Excess of revenues over (under) expenditures	(19,486)	(19,674)	-	1,290	(1,102)
OTHER FINANCING SOURCES					
Transfers in	250,000	-	250,000	-	-
Net change in fund balances	230,514	(19,674)	250,000	1,290	(1,102)
Fund balances at January 1, 2007	1,693,509	157,835	1,500,000	25,465	10,209
Fund balances at December 31, 2007	\$ 1,924,023	\$ 138,161	\$ 1,750,000	\$ 26,755	\$ 9,107

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
Other Special Revenue Funds
For the year ended December 31, 2007

	Criminal Forfeitures			Budget Stabilization			Farmers' Market Improvement		
	Final budget	Actual	Variance - positive (negative)	Final budget	Actual	Variance - positive (negative)	Final budget	Actual	Variance - positive (negative)
REVENUES									
Charges for services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fines and forfeitures	16,000	21,143	5,143	-	-	-	-	-	-
Investment earnings	6,700	7,566	866	-	-	-	1,100	1,290	190
Other	-	-	-	-	-	-	300	-	(300)
Total revenues	22,700	28,709	6,009	-	-	-	1,400	1,290	(110)
EXPENDITURES									
Current									
Public safety	51,000	48,383	2,617	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-	-
Total expenditures	51,000	48,383	2,617	-	-	-	-	-	-
Excess of revenues over (under) expenditures	(28,300)	(19,674)	8,626	-	-	-	1,400	1,290	(110)
OTHER FINANCING SOURCES (USES)									
Transfers in	-	-	-	-	250,000	250,000	-	-	-
Transfers out	-	-	-	(150,000)	-	150,000	-	-	-
Total other financing sources (uses)	-	-	-	(150,000)	250,000	400,000	-	-	-
Net change in fund balances	\$ (28,300)	(19,674)	\$ 8,626	\$ (150,000)	250,000	\$ 400,000	\$ 1,400	1,290	\$ (110)
Fund balances at January 1, 2007		157,835			1,500,000			25,465	
Fund balances at December 31, 2007		\$ 138,161			\$ 1,750,000			\$ 26,755	

City of Muskegon
BUDGETARY COMPARISON SCHEDULE—CONTINUED
Other Special Revenue Funds
For the year ended December 31, 2007

	Tree Replacement		Variance -
	Final budget	Actual	positive (negative)
REVENUES			
Charges for services	\$ 1,400	\$ 400	\$ (1,000)
Fines and forfeitures	-	-	-
Investment earnings	500	522	22
Other	400	1,000	600
Total revenues	2,300	1,922	(378)
EXPENDITURES			
Current			
Public safety	-	-	-
Culture and recreation	3,800	3,024	776
Total expenditures	3,800	3,024	776
Excess of revenues over (under) expenditures	(1,500)	(1,102)	398
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	<u>\$ (1,500)</u>	<u>(1,102)</u>	<u>\$ 398</u>
Fund balances at January 1, 2007		10,209	
Fund balances at December 31, 2007		<u>\$ 9,107</u>	

City of Muskegon
COMBINING BALANCE SHEET
Other Capital Projects Funds
December 31, 2007

	Total other capital projects funds	Sidewalk Replacement	Michcon Remediation	EDC Revolving Loan	Community Development Block Grant	State Grants	HOME Rehabilitation	Arena Capital Improvements	Lead Abatement
ASSETS									
Cash and investments	\$ 1,288,824	\$ 903,715	\$ 210,103	\$ 100,310	\$ -	\$ -	\$ -	\$ 74,696	\$ -
Receivables									
Accounts and loans (net of allowance for uncollectibles)	409,504	-	-	20,946	386,530	-	-	2,028	-
Special assessments	533,717	533,717	-	-	-	-	-	-	-
Due from other governmental units	864,822	-	-	-	472,725	277,213	107,229	-	7,655
Total assets	<u>\$ 3,096,867</u>	<u>\$ 1,437,432</u>	<u>\$ 210,103</u>	<u>\$ 121,256</u>	<u>\$ 859,255</u>	<u>\$ 277,213</u>	<u>\$ 107,229</u>	<u>\$ 76,724</u>	<u>\$ 7,655</u>
LIABILITIES AND FUND BALANCES (DEFICIT)									
Liabilities									
Accounts payable	\$ 36,300	\$ -	\$ -	\$ -	\$ 11,553	\$ 13,840	\$ 9,446	\$ -	\$ 1,461
Accrued liabilities	9,177	-	-	-	7,401	-	1,776	-	-
Due to other funds	997,007	-	-	-	550,181	113,271	327,361	-	6,194
Deferred revenue	709,967	419,847	-	-	290,120	-	-	-	-
Total liabilities	<u>1,752,451</u>	<u>419,847</u>	<u>-</u>	<u>-</u>	<u>859,255</u>	<u>127,111</u>	<u>338,583</u>	<u>-</u>	<u>7,655</u>
Fund balances (deficit)									
Reserved for capital projects	1,194,416	1,017,585	210,103	121,256	-	102	(231,354)	76,724	-
Unreserved									
Designated for approved projects	150,000	-	-	-	-	150,000	-	-	-
Total fund balances (deficit)	<u>1,344,416</u>	<u>1,017,585</u>	<u>210,103</u>	<u>121,256</u>	<u>-</u>	<u>150,102</u>	<u>(231,354)</u>	<u>76,724</u>	<u>-</u>
Total liabilities and fund balances (deficit)	<u>\$ 3,096,867</u>	<u>\$ 1,437,432</u>	<u>\$ 210,103</u>	<u>\$ 121,256</u>	<u>\$ 859,255</u>	<u>\$ 277,213</u>	<u>\$ 107,229</u>	<u>\$ 76,724</u>	<u>\$ 7,655</u>

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)
Other Capital Projects Funds
For the year ended December 31, 2007

	Total other capital projects funds	Sidewalk Replacement	Michcon Remediation	EDC Revolving Loan	Community Development Block Grant	State Grants	HOME Rehabilitation	Arena Capital Improvements	Lead Abatement
REVENUES									
Intergovernmental revenues									
Federal	\$ 1,871,468	\$ -	\$ -	\$ -	\$ 1,302,407	\$ 115,573	\$ 445,833	\$ -	\$ 7,655
State	270,962	-	-	-	-	270,962	-	-	-
Charges for services	37,363	-	-	-	-	-	-	37,363	-
Investment earnings	88,544	69,753	10,145	4,139	904	-	-	3,603	-
Other	215,100	142,506	-	40,833	21,461	10,000	-	-	300
Total revenues	2,483,437	212,259	10,145	44,972	1,324,772	396,535	445,833	40,966	7,955
EXPENDITURES									
Debt service									
Principal	330,000	330,000	-	-	-	-	-	-	-
Interest and fees	66,778	66,778	-	-	-	-	-	-	-
Capital outlay	2,699,255	-	46	23,410	1,337,978	462,841	823,397	43,628	7,955
Total expenditures	3,096,033	396,778	46	23,410	1,337,978	462,841	823,397	43,628	7,955
Excess of revenues over (under) expenditures	(612,596)	(184,519)	10,099	21,562	(13,206)	(66,306)	(377,564)	(2,662)	-
OTHER FINANCING SOURCES (USES)									
Proceeds from sale of capital assets	159,416	-	-	-	13,206	-	146,210	-	-
Transfers in	450,833	300,000	-	-	-	150,833	-	-	-
Transfers out	(11,473)	-	-	-	-	(11,473)	-	-	-
Total other financing sources (uses)	598,776	300,000	-	-	13,206	139,360	146,210	-	-
Net change in fund balances	(13,820)	115,481	10,099	21,562	-	73,054	(231,354)	(2,662)	-
Fund balances at January 1, 2007	1,358,236	902,104	200,004	99,694	-	77,048	-	79,386	-
Fund balances (deficit) at December 31, 2007	\$ 1,344,416	\$ 1,017,585	\$ 210,103	\$ 121,256	\$ -	\$ 150,102	\$ (231,354)	\$ 76,724	\$ -

DESCRIPTION OF INTERNAL SERVICE FUNDS

Internal service funds are used to account for the financing of goods or services provided by one department to other departments of a governmental unit or to other governments on a cost-reimbursement basis.

A list and description of internal service funds maintained by the City follows:

Engineering Services – to account for salary, benefit and other costs related to the provision of internal engineering services for City projects; to account for charges to the user funds and projects to cover those expenses.

Equipment – to account for the purchase, operation, maintenance and depreciation of all City-owned vehicles and equipment; to account for charges to the user funds and departments to cover those expenses.

General Insurance – to account for the payment of claims and benefits, excess liability premiums and operating expenses; to account for charges to other funds and departments to cover the expenses.

Public Service Building – to account for the operation, maintenance and depreciation of the City's Public Service Building; to account for charges to the user funds and departments to cover these expenses.

City of Muskegon
COMBINING STATEMENT OF NET ASSETS
Internal Service Funds
December 31, 2007

ASSETS

	Total internal service funds	Engineering Services	Equipment	General Insurance	Public Service Building
CURRENT ASSETS					
Cash and investments	\$ 3,682,566	\$ 96,427	\$ 2,004,577	\$ 1,206,249	\$ 375,313
Accounts receivable	650,791	72,125	15,316	563,350	-
Inventories	23,335	-	23,335	-	-
Prepaid items	160,113	1,238	21,122	136,287	1,466
Total current assets	4,516,805	169,790	2,064,350	1,905,886	376,779
NONCURRENT ASSETS					
Capital assets					
Land	65,000	-	-	-	65,000
Land improvements	121,648	-	-	-	121,648
Buildings and improvements	1,559,334	-	-	-	1,559,334
Machinery and equipment	7,363,193	26,355	7,302,149	-	34,689
Less accumulated depreciation	(6,585,916)	(26,355)	(5,596,915)	-	(962,646)
Total noncurrent assets	2,523,259	-	1,705,234	-	818,025
Total assets	7,040,064	169,790	3,769,584	1,905,886	1,194,804
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	162,417	2,187	69,647	64,860	25,723
Accrued liabilities	33,478	7,978	17,491	875	7,134
Bonds and other obligations, due within one year	15,000	3,000	7,700	300	4,000
Total current liabilities	210,895	13,165	94,838	66,035	36,857
NONCURRENT LIABILITIES					
Bonds and other obligations, less amounts due within one year	75,437	15,716	37,671	1,341	20,709
Total liabilities	286,332	28,881	132,509	67,376	57,566
NET ASSETS					
Invested in capital assets	2,523,259	-	1,705,234	-	818,025
Unrestricted	4,230,473	140,909	1,931,841	1,838,510	319,213
Total net assets	\$ 6,753,732	\$ 140,909	\$ 3,637,075	\$ 1,838,510	\$ 1,137,238

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Internal Service Funds
For the year ended December 31, 2007

	Total internal service funds	Engineering Services	Equipment	General Insurance	Public Service Building
OPERATING REVENUES					
Charges for services	\$ 8,087,546	\$ 434,618	\$ 2,520,803	\$ 4,550,855	\$ 581,270
Other	148,155	78,938	68,001	1,116	100
Total operating revenues	8,235,701	513,556	2,588,804	4,551,971	581,370
OPERATING EXPENSES					
Administration	290,568	83,664	100,956	64,020	41,928
Insurance premiums and claims	3,967,287	-	-	3,967,287	-
Other operations	2,850,308	406,796	1,924,154	62,300	457,058
Depreciation	568,841	-	496,413	-	72,428
Total operating expenses	7,677,004	490,460	2,521,523	4,093,607	571,414
Operating income	558,697	23,096	67,281	458,364	9,956
NONOPERATING REVENUES					
Investment earnings	145,290	6,361	85,618	39,250	14,061
Gain on sale of capital assets	12,000	-	12,000	-	-
Total nonoperating revenues	157,290	6,361	97,618	39,250	14,061
Income before transfers	715,987	29,457	164,899	497,614	24,017
Transfers in	28,046	-	-	28,046	-
Change in net assets	744,033	29,457	164,899	525,660	24,017
Net assets at January 1, 2007	6,009,699	111,452	3,472,176	1,312,850	1,113,221
Net assets at December 31, 2007	\$ 6,753,732	\$ 140,909	\$ 3,637,075	\$ 1,838,510	\$ 1,137,238

City of Muskegon
COMBINING STATEMENT OF CASH FLOWS
Internal Service Funds
For the year ended December 31, 2007

	Total internal service funds	Engineering Services	Equipment	General Insurance	Public Service Building
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 73,472	\$ 11,314	\$ 60,942	\$ 1,116	\$ 100
Receipts from interfund services provided	8,087,546	434,618	2,520,803	4,550,855	581,270
Payments to suppliers	(5,639,056)	(138,403)	(1,333,642)	(3,895,087)	(271,924)
Payments to employees	(941,195)	(294,741)	(443,398)	(19,542)	(183,514)
Payments for interfund services used	(698,509)	(72,250)	(250,975)	(339,715)	(35,569)
Net cash provided by (used for) operating activities	882,258	(59,462)	553,730	297,627	90,363
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in	28,046	-	-	28,046	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases of capital assets	(276,602)	-	(276,602)	-	-
Proceeds from sale of capital assets	27,380	-	27,380	-	-
Net cash used for capital and related financing activities	(249,222)	-	(249,222)	-	-
CASH FLOW FROM INVESTING ACTIVITIES					
Investment earnings	145,290	6,361	85,618	39,250	14,061
Net increase (decrease) in cash and investments	806,372	(53,101)	390,126	364,923	104,424
Cash and investments at January 1, 2007	2,876,194	149,528	1,614,451	841,326	270,889
Cash and investments at December 31, 2007	\$ 3,682,566	\$ 96,427	\$ 2,004,577	\$ 1,206,249	\$ 375,313
Reconciliation of operating income to net cash provided by (used for) operating activities					
Operating income	\$ 558,697	\$ 23,096	\$ 67,281	\$ 458,364	\$ 9,956
Adjustments to reconcile operating income to net cash provided by (used for) operating activities					
Depreciation expense	568,841	-	496,413	-	72,428
Change in assets and liabilities					
Receivables, net	(169,453)	(67,624)	(7,059)	(94,770)	-
Inventories	(6,157)	-	(6,157)	-	-
Prepaid items	66,494	315	3,073	63,202	(96)
Accounts payable	(119,517)	1,221	3,967	(131,685)	6,980
Accrued liabilities	(16,647)	(16,470)	(3,788)	2,516	1,095
Net cash provided by (used for) operating activities	\$ 882,258	\$ (59,462)	\$ 553,730	\$ 297,627	\$ 90,363

DESCRIPTION OF FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by a government in a trustee capacity for individuals, private organizations, other governments or other funds.

A list and description of the fiduciary funds maintained by the City follows:

PENSION TRUST FUNDS are used to account for public employee retirement systems.

General Employees Retirement System – to account for the funding of retirement for the general employees of the City by all funds and departments, for establishing and maintaining required reserves and the payment of retirement benefits to participants.

Policemen and Firemen Retirement System – to account for the funding of public safety employees' retirement by the general fund, for establishing and maintaining required reserves and the payment of retirement benefits to participants.

Retiree Healthcare – to account for the funding of retirement healthcare benefits for employees and retirees of the city in accordance with the provisions of P.A. 149 of 1999.

AGENCY FUNDS are used to account for assets held as an agent for another organization or individual.

Collector – to account for the collections and disbursement of funds to other entities and individuals and to account for payroll withholdings and their remittance to the appropriate governmental agencies.

Current Tax – to account for levy, collection and payment of taxes levied for the general and other funds of the City, county and public school districts.

Rehab Loan Escrow – to account for deposits made by housing rehabilitation program participants and their expenditures for the intended purposes.

City of Muskegon
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
Pension Trust Funds
December 31, 2007

	General Employees Retirement System			Policemen and Firemen Retirement System		
	Total pension trust funds	Pension	Healthcare	Total	Pension	Healthcare
ASSETS						Retiree Healthcare
Cash and investments	\$ - \$	- \$	- \$	- \$	- \$	- \$
LIABILITIES						
Accounts payable	-	-	-	-	-	-
NET ASSETS						
Held in trust for benefits	\$ -	- \$	- \$	- \$	- \$	- \$

City of Muskegon
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Pension Trust Funds
For the year ended December 31, 2007

	Total pension trust funds	General Employees Retirement System			Policemen and Firemen Retirement System			Retiree Healthcare
		Pension	Healthcare	Total	Pension	Healthcare	Total	
ADDITIONS								
Contributions								
Employer	\$ 503,329	\$ 66,489	\$ -	\$ 66,489	\$ 187,852	\$ -	\$ 187,852	\$ 248,988
Plan members	72,158	36,017	-	36,017	36,141	-	36,141	-
Total contributions	575,487	102,506	-	102,506	223,993	-	223,993	248,988
Investment earnings								
Interest and dividends	77,244	64,871	-	64,871	11,547	-	11,547	826
Net increase (decrease) in fair value of investments	325,594	(9,572)	(2,101)	(11,673)	(4,055)	-	(4,055)	341,322
Total net investment earnings	402,838	55,299	(2,101)	53,198	7,492	-	7,492	342,148
Total additions	978,325	157,805	(2,101)	155,704	231,485	-	231,485	591,136
DEDUCTIONS								
Plan assets transferred to								
Municipal Employees Retirement System	33,404,632	12,042,312	5,251,015	17,293,327	7,472,320	-	7,472,320	8,638,985
Administrative expenses	121,736	92,435	-	92,435	25,806	-	25,806	3,495
Total deductions	33,526,368	12,134,747	5,251,015	17,385,762	7,498,126	-	7,498,126	8,642,480
Interfund transfers in (out)	-	(2,229,445)	2,229,445	-	-	-	-	-
Change in net assets	(32,548,043)	(14,206,387)	(3,023,671)	(17,230,058)	(7,266,641)	-	(7,266,641)	(8,051,344)
Net assets at January 1, 2007	32,548,043	14,206,387	3,023,671	17,230,058	7,266,641	-	7,266,641	8,051,344
Net assets at December 31, 2007	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

City of Muskegon
COMBINING STATEMENT OF ASSETS AND LIABILITIES
Agency Funds
December 31, 2007

	Total agency funds	Collector	Current tax	Rehab Loan Escrow
ASSETS				
Cash and investments	\$ 6,260,508	\$ 1,062,271	\$ 5,198,237	\$ -
Receivables				
Accounts	2,767	2,767	-	-
Property taxes	13,913,118	-	13,913,118	-
Total assets	<u>\$ 20,176,393</u>	<u>\$ 1,065,038</u>	<u>\$ 19,111,355</u>	<u>\$ -</u>
LIABILITIES				
Accounts payable	\$ 179,063	\$ 179,063	\$ -	\$ -
Due to other governmental units	19,801,433	715,267	19,086,166	-
Deposits held for others	195,897	170,708	25,189	-
Total liabilities	<u>\$ 20,176,393</u>	<u>\$ 1,065,038</u>	<u>\$ 19,111,355</u>	<u>\$ -</u>

City of Muskegon
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Agency Funds
For the year ended December 31, 2007

	Balance January 1, 2007	Additions	Deductions	Balance December 31, 2007
COLLECTOR FUND				
ASSETS				
Cash and investments	\$ 947,378	\$ 15,273,568	\$ 15,158,675	\$ 1,062,271
Accounts receivable	900	300,623	298,756	2,767
Total assets	<u>\$ 948,278</u>	<u>\$ 15,574,191</u>	<u>\$ 15,457,431</u>	<u>\$ 1,065,038</u>
LIABILITIES				
Accounts payable	\$ 129,450	\$ 9,659,472	\$ 9,609,859	\$ 179,063
Due to other governmental units	483,071	2,319,192	2,086,996	715,267
Deposits held for others	335,757	3,043,008	3,208,057	170,708
Total liabilities	<u>\$ 948,278</u>	<u>\$ 15,021,672</u>	<u>\$ 14,904,912</u>	<u>\$ 1,065,038</u>
CURRENT TAX FUND				
ASSETS				
Cash and investments	\$ 4,609,875	\$ 32,405,803	\$ 31,817,441	\$ 5,198,237
Property taxes receivable	16,603,887	20,419,966	23,110,735	13,913,118
Total assets	<u>\$ 21,213,762</u>	<u>\$ 52,825,769</u>	<u>\$ 54,928,176</u>	<u>\$ 19,111,355</u>
LIABILITIES				
Due to other governmental units	\$ 21,183,643	\$ 20,419,966	\$ 22,517,443	\$ 19,086,166
Due to other funds	-	8,721,637	8,721,637	-
Due to component units	-	482,050	482,050	-
Deposits held for others	30,119	91,380	96,310	25,189
Total liabilities	<u>\$ 21,213,762</u>	<u>\$ 29,715,033</u>	<u>\$ 31,817,440</u>	<u>\$ 19,111,355</u>
REHAB LOAN ESCROW FUND				
ASSETS				
Cash and investments	\$ -	\$ 3,741	\$ 3,741	\$ -
LIABILITIES				
Accounts payable	\$ -	\$ 3,741	\$ 3,741	\$ -
ALL AGENCY FUNDS				
ASSETS				
Cash and investments	\$ 5,557,253	\$ 47,683,112	\$ 46,979,857	\$ 6,260,508
Receivables				
Accounts	900	300,623	298,756	2,767
Property taxes	16,603,887	20,419,966	23,110,735	13,913,118
Total assets	<u>\$ 22,162,040</u>	<u>\$ 68,403,701</u>	<u>\$ 70,389,348</u>	<u>\$ 20,176,393</u>
LIABILITIES				
Accounts payable	\$ 129,450	\$ 9,663,213	\$ 9,613,600	\$ 179,063
Due to other governmental units	21,666,714	22,739,158	24,604,439	19,801,433
Due to other funds	-	8,721,637	8,721,637	-
Due to component units	-	482,050	482,050	-
Deposits held for others	365,876	3,134,388	3,304,367	195,897
Total liabilities	<u>\$ 22,162,040</u>	<u>\$ 44,740,446</u>	<u>\$ 46,726,093</u>	<u>\$ 20,176,393</u>

DESCRIPTION OF DISCRETELY PRESENTED COMPONENT UNITS

A list and description of the discretely presented component units maintained by the City are as follows:

Downtown Development Authority – to account for the collection of tax increment revenues, the issuance and repayment of debt and the construction of public facilities to promote and facilitate economic growth in the downtown.

Local Development Finance Authority – to account for the collection of tax increment revenues and the construction of public facilities. Three separate local development finance authority districts have been created:

Local Development Finance Authority I – to promote and facilitate economic growth in the Port City Industrial Park.

Local Development Finance Authority II – to promote and facilitate economic growth in the Medendorp Industrial Park.

Local Development Finance Authority III – to promote and facilitate economic growth in the SmartZone Hi-Tech Park.

Tax Increment Finance Authority – to account for the collection of tax increment revenues, the issuance and repayment of debt to promote and facilitate economic growth in a sub section of the downtown.

City of Muskegon
COMBINING BALANCE SHEET
Discretely Presented Component Units
December 31, 2007

	Total discretely presented component units	Local Development Finance Authority I	Local Development Finance Authority II	Local Development Finance Authority III	Downtown Development Authority	Tax Increment Finance Authority
ASSETS						
Cash and investments	\$ 82,919	\$ 335	\$ 24,393	\$ 27,275	\$ 24,564	\$ 6,352
Property taxes receivable	447,884	-	-	24,925	365,501	57,458
Total assets	<u>\$ 530,803</u>	<u>\$ 335</u>	<u>\$ 24,393</u>	<u>\$ 52,200</u>	<u>\$ 390,065</u>	<u>\$ 63,810</u>
LIABILITIES AND FUND BALANCES (DEFICIT)						
Liabilities						
Due to other governmental units	\$ 83,172	\$ -	\$ -	\$ -	\$ 83,172	\$ -
Deferred revenue	447,884	-	-	24,925	365,501	57,458
Total liabilities	<u>531,056</u>	<u>-</u>	<u>-</u>	<u>24,925</u>	<u>448,673</u>	<u>57,458</u>
Fund balances (deficit)						
Unreserved	(253)	335	24,393	27,275	(58,608)	6,352
Total liabilities and fund balances (deficit)	<u>\$ 530,803</u>	<u>\$ 335</u>	<u>\$ 24,393</u>	<u>\$ 52,200</u>	<u>\$ 390,065</u>	<u>\$ 63,810</u>

City of Muskegon
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
Discretely Presented Component Units
December 31, 2007

Total fund balance—governmental funds	\$	(253)
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.		
Capital assets	\$	4,198,258
Accumulated depreciation		<u>(704,980)</u>
		3,493,278
Bond issuance costs are not capitalized and amortized in the governmental funds.		
Bond issuance costs		141,966
Accumulated amortization		<u>(30,862)</u>
		111,104
Accrued interest in governmental activities is not reported in the governmental funds.		(44,900)
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.		<u>(8,543,719)</u>
Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>(4,984,490)</u></u>

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)
Discretely Presented Component Units
For the year ended December 31, 2007

	Total discretely presented component units	Local			Local			Tax Increment Finance Authority
		Development Finance Authority I	Development Finance Authority II	Development Finance Authority III	Downtown Development Authority			
REVENUES								
Property taxes	\$ 562,196	\$ -	\$ -	\$ 28,901	\$ 476,460	\$	\$ 56,835	
Intergovernmental revenues - Local	100,000	-	-	100,000	-		-	
Investment earnings	6,829	12	1,177	4,881	-		759	
Other	75,000	-	-	75,000	-		-	
Total revenues	744,025	12	1,177	208,782	476,460		57,594	
EXPENDITURES								
Current								
Community and economic development	144,330	-	-	1,000	83,330		60,000	
Debt service								
Principal	280,000	-	-	80,000	200,000		-	
Interest and fees	353,240	-	-	205,498	147,742		-	
Total expenditures	777,570	-	-	286,498	431,072		60,000	
Net change in fund balances	(33,545)	12	1,177	(77,716)	45,388		(2,406)	
Fund balances (deficit) at January 1, 2007	33,292	323	23,216	104,991	(103,996)		8,758	
Fund balances (deficit) at December 31, 2007	\$ (253)	\$ 335	\$ 24,393	\$ 27,275	\$ (58,608)		\$ 6,352	

City of Muskegon
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

Discretely Presented Component Units
For the year ended December 31, 2007

Net change in fund balances—total governmental funds	\$ (33,545)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities, these costs are depreciated and amortized over their estimated useful lives, respectively.	
Depreciation and amortization expense	(178,820)
Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	279,421
Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.	<u>1,100</u>
Change in net assets of governmental activities	<u>\$ 68,156</u>

SCHEDULE OF INDEBTEDNESS

SCHEDULE OF INDEBTEDNESS

December 31, 2007

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity			Annual Interest Payable
					2006	2007	
Business-Type Activities Bonds and Loans Payable:							
Water supply system bonds (\$9,574 unamortized discount)	10/1/1993	\$ 5,465,000	0.00%	05/01/08	\$ -	\$ -	40,500
			0.00%	05/01/09	-	-	40,500
			0.00%	05/01/10	-	-	40,500
			0.00%	05/01/11	-	-	40,500
			4.50%	05/01/12	450,000	450,000	30,375
			4.50%	05/01/13	450,000	450,000	10,121
					900,000	900,000	202,496
Water supply system bonds (\$46,836 unamortized discount)	3/2/1999	\$ 9,575,000	4.05%	05/01/07	470,000	-	-
			4.05%	05/01/08	490,000	490,000	288,728
			4.10%	05/01/09	510,000	510,000	268,350
			4.20%	05/01/10	535,000	535,000	246,660
			4.30%	05/01/11	555,000	555,000	223,493
			4.35%	05/01/12	130,000	130,000	208,733
			4.40%	05/01/13	155,000	155,000	202,495
			4.50%	05/01/14	635,000	635,000	184,798
			4.55%	05/01/15	665,000	665,000	155,381
			4.60%	05/01/16	695,000	695,000	124,268
			4.65%	05/01/17	730,000	730,000	91,310
			4.75%	05/01/18	765,000	765,000	56,169
			4.75%	05/01/19	800,000	800,000	19,000
					7,135,000	6,665,000	2,069,385
Drinking Water State Revolving Fund (DWSRF)	3/2/2004	\$ 13,900,000	2.13%	10/01/07	575,000	-	-
			2.13%	10/01/08	590,000	590,000	271,150
			2.13%	10/01/09	600,000	600,000	258,613
			2.13%	10/01/10	615,000	615,000	245,863
			2.13%	10/01/11	630,000	630,000	232,794
			2.13%	10/01/12	640,000	640,000	219,406
			2.13%	10/01/13	655,000	655,000	205,806
			2.13%	10/01/14	670,000	670,000	191,888
			2.13%	10/01/15	685,000	685,000	177,650
			2.13%	10/01/16	695,000	695,000	163,094
			2.13%	10/01/17	710,000	710,000	148,325
			2.13%	10/01/18	725,000	725,000	133,238
			2.13%	10/01/19	745,000	745,000	117,831
			2.13%	10/01/20	760,000	760,000	102,000
			2.13%	10/01/21	775,000	775,000	85,850
			2.13%	10/01/22	790,000	790,000	69,382
			2.13%	10/01/23	810,000	810,000	52,594
			2.13%	10/01/24	825,000	825,000	35,381
			2.13%	10/01/25	840,000	840,000	17,850
		13,335,000	12,760,000	2,728,715			
Contractual obligation for County wastewater debt retirement - refunding bonds	11/6/2002	\$ 6,990,000	5.00%	07/01/07	1,232,894	-	-
			5.00%	07/01/08	1,221,207	1,221,207	51,944
				2,454,101	1,221,207	51,944	
TOTAL BUSINESS-TYPE ACTIVITIES BONDS AND LOANS PAYABLE					\$ 23,824,101	\$ 21,546,207	\$ 5,052,540

SCHEDULE OF INDEBTEDNESS - CONTINUED

December 31, 2007

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity			Annual Interest Payable
					2006	2007	
Governmental Activities Bonds and Loans Payable:							
Installment purchase contract of 2005 (firetrucks)	7/26/2005	\$ 605,824	3.83%	04/01/07	\$ 51,921	\$ -	-
			3.83%	04/01/08	54,148	54,148	18,271
			3.83%	04/01/09	56,471	56,471	16,153
			3.83%	04/01/10	58,894	58,894	13,944
			3.83%	04/01/11	61,420	61,420	11,639
			3.83%	04/01/12	64,055	64,055	9,236
			3.83%	04/01/13	66,803	66,803	6,731
			3.83%	04/01/14	69,669	69,669	4,117
			3.83%	04/01/15	72,658	72,658	1,391
					556,039	504,118	81,482
Special assessment improvement bonds of 1998 (sidewalks)	10/1/1998	\$ 1,495,000	4.00%	04/01/07	130,000	-	-
			4.00%	04/01/08	95,000	95,000	4,300
			4.00%	04/01/09	60,000	60,000	1,200
				285,000	155,000	5,500	
Special assessment improvement bonds of 2000 (sidewalks)	12/1/2000	\$ 825,000	4.70%	04/01/07	90,000	-	-
			4.80%	04/01/08	85,000	85,000	9,705
			4.90%	04/01/09	85,000	85,000	5,583
			5.00%	04/01/10	70,000	70,000	1,746
				330,000	240,000	17,034	
Capital improvement bonds of 2003 (sidewalks)	3/1/2003	\$ 1,575,000	2.38%	06/01/07	110,000	-	-
			2.88%	06/01/08	110,000	110,000	40,280
			3.13%	06/01/09	115,000	115,000	36,902
			3.50%	06/01/10	120,000	120,000	33,005
			3.50%	06/01/11	120,000	120,000	28,805
			3.70%	06/01/12	125,000	125,000	24,393
			3.80%	06/01/13	130,000	130,000	19,610
			3.90%	06/01/14	135,000	135,000	14,508
			4.00%	06/01/15	145,000	145,000	8,975
			4.05%	06/01/16	150,000	150,000	3,038
				1,260,000	1,150,000	209,514	
Capital improvement bonds of 2006 (fire station, recreation) (\$16,618 unamortized discount)	10/24/2006	\$ 5,400,000	4.00%	10/01/08	45,000	45,000	219,145
			4.00%	10/01/09	50,000	50,000	217,345
			4.00%	10/01/10	70,000	70,000	215,345
			4.00%	10/01/11	70,000	70,000	212,545
			4.00%	10/01/12	70,000	70,000	209,745
			4.00%	10/01/13	70,000	70,000	206,945
			4.00%	10/01/14	70,000	70,000	204,145
			4.00%	10/01/15	70,000	70,000	201,345
			4.00%	10/01/16	70,000	70,000	198,545
			4.00%	10/01/17	70,000	70,000	195,745
			4.00%	10/01/18	70,000	70,000	192,945
			4.00%	10/01/19	295,000	295,000	190,145
			4.00%	10/01/20	305,000	305,000	178,345
			4.00%	10/01/21	315,000	315,000	166,145
			4.00%	10/01/22	315,000	315,000	153,545
			4.00%	10/01/23	320,000	320,000	140,945
			4.00%	10/01/24	340,000	340,000	128,145
			4.00%	10/01/25	345,000	345,000	114,545
			4.00%	10/01/26	345,000	345,000	100,745
			4.10%	10/01/27	345,000	345,000	86,945
			4.10%	10/01/28	350,000	350,000	72,800
			4.10%	10/01/29	350,000	350,000	58,450
			4.20%	10/01/30	350,000	350,000	44,100
			4.20%	10/01/31	350,000	350,000	29,400
			4.20%	10/01/32	350,000	350,000	14,700
					5,400,000	5,400,000	3,752,750

SCHEDULE OF INDEBTEDNESS - CONTINUED

December 31, 2007

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity			Annual Interest Payable
					2006	2007	
Discretely Presented Component Unit Bonds and Loans Payable:							
Downtown Development Authority promissory note to Muskegon County	8/10/1989	\$ 1,000,000	0.00%	08/30/19	\$ 1,000,000	\$ 1,000,000	\$ -
					1,000,000	1,000,000	-
Downtown Development Authority refunding bonds	9/1/2001	\$ 4,005,000	4.00%	06/01/07	200,000	-	-
			4.00%	06/01/08	210,000	210,000	129,292
			4.20%	06/01/09	220,000	220,000	120,472
			4.25%	06/01/10	230,000	230,000	110,964
			4.35%	06/01/11	240,000	240,000	100,857
			4.45%	06/01/12	245,000	245,000	90,187
			4.55%	06/01/13	260,000	260,000	78,821
			4.65%	06/01/14	270,000	270,000	66,628
			4.75%	06/01/15	280,000	280,000	53,700
			4.85%	06/01/16	300,000	300,000	39,775
			5.00%	06/01/17	315,000	315,000	24,625
			5.00%	06/01/18	335,000	335,000	8,375
					3,105,000	2,905,000	823,696
			Local Development Finance Authority Smartzone Bonds (\$6,281 unamortized discount)	11/1/2002	\$ 4,725,000	3.25%	11/01/07
3.50%	11/01/08	80,000				80,000	202,547
3.63%	11/01/09	80,000				80,000	199,747
3.88%	11/01/10	80,000				80,000	196,847
3.88%	11/01/11	80,000				80,000	193,747
4.00%	11/01/12	180,000				180,000	190,647
3.90%	11/01/13	240,000				240,000	183,447
4.05%	11/01/14	305,000				305,000	174,087
4.05%	11/01/15	325,000				325,000	161,736
4.15%	11/01/16	340,000				340,000	148,572
4.25%	11/01/17	355,000				355,000	134,462
4.35%	11/01/18	375,000				375,000	119,376
4.45%	11/01/19	395,000				395,000	103,062
4.60%	11/01/20	400,000				400,000	85,486
4.60%	11/01/21	255,000				255,000	67,086
4.60%	11/01/22	265,000				265,000	55,356
4.85%	11/01/23	280,000				280,000	43,166
4.85%	11/01/24	295,000				295,000	29,586
4.85%	11/01/25	315,000				315,000	15,278
					4,725,000	4,645,000	2,304,235
TOTAL DISCRETELY PRESENTED COMPONENT UNIT BONDS AND LOANS PAYABLE					\$ 8,830,000	\$ 8,550,000	\$ 3,127,931
TOTAL REPORTING ENTITY BONDS AND LOANS PAYABLE					\$ 42,872,040	\$ 39,072,225	\$ 12,252,844

Statistical Section

This part of the City of Muskegon's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

<u>Contents</u>	<u>Page</u>
Financial Trends	
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	118
Revenue Capacity	
These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.	123
Debt Capacity	
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	128
Demographic and Economic Information	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.	132
Operating Information	
These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.	134

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented Statement 34 in 2002; schedules presenting government-wide information include information beginning in that year.

City of Muskegon

NET ASSETS BY COMPONENT

Last Six Fiscal Years

	2002	2003	2004	2005 (a)	2006	2007
<u>Governmental Activities</u>						
Invested in Capital Assets, net of related debt	\$ 23,793,307	\$ 32,120,134	\$ 40,663,844	\$ 67,119,658	\$ 68,189,021	\$ 68,059,626
Restricted	4,461,791	5,674,787	5,209,654	5,420,482	5,378,669	5,485,703
Unrestricted	8,678,107	9,286,551	7,407,355	7,811,489	8,778,786	10,162,425
Total Governmental Net Assets	\$ 36,933,205	\$ 47,081,472	\$ 53,280,853	\$ 80,351,629	\$ 82,346,476	\$ 83,707,754
<u>Business-type Activities</u>						
Invested in Capital Assets, net of related debt	\$ 26,226,230	\$ 27,808,792	\$ 31,609,016	\$ 36,742,669	\$ 39,441,912	\$ 39,356,966
Restricted	822,559	822,559	822,559	822,559	822,559	822,559
Unrestricted	11,647,943	10,488,022	8,647,716	6,663,563	6,910,247	7,980,823
Total Business-type Activities Net Assets	\$ 38,696,732	\$ 39,119,373	\$ 41,079,291	\$ 44,228,791	\$ 47,174,718	\$ 48,160,348
<u>Primary Government</u>						
Invested in Capital Assets, net of related debt	\$ 50,019,537	\$ 59,928,926	\$ 72,272,860	\$ 103,862,327	\$ 107,630,933	\$ 107,416,592
Restricted	5,284,350	6,497,346	6,032,213	6,243,041	6,201,228	6,308,262
Unrestricted	20,326,050	19,774,573	16,055,071	14,475,052	15,689,033	18,143,248
Total Primary Government Net Assets	\$ 75,629,937	\$ 86,200,845	\$ 94,360,144	\$ 124,580,420	\$ 129,521,194	\$ 131,868,102

(a) In 2005, the City began reporting historic infrastructure assets as required by GASB 34.

SOURCE: The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information start that year. Certain other information has not been presented previously. Reported numbers begin with the year for which information believed to be accurate is available.

City of Muskegon

CHANGES IN NET ASSETS

Last Six Fiscal Years

	2002	2003	2004	2005	2006	2007
EXPENSES						
<u>Governmental Activities</u>						
Public representation	\$ 986,121	\$ 887,496	\$ 866,669	\$ 885,365	\$ 904,109	\$ 925,124
Administrative services	1,287,066	1,227,407	1,132,229	803,783	732,715	783,713
Financial services	1,854,425	1,842,653	1,809,136	1,872,159	2,061,836	2,205,041
Public safety	11,576,135	11,583,282	12,164,389	12,481,826	13,059,358	12,802,488
Public works	2,830,133	2,947,194	2,847,755	2,853,497	3,089,522	2,989,433
Highways, streets and bridges	2,880,522	3,483,032	3,879,462	5,910,307	5,672,590	7,272,288
Community and economic development	4,014,780	3,371,472	2,652,497	3,693,187	3,383,157	3,054,087
Culture and recreation	3,009,092	3,042,315	2,468,059	2,504,692	2,464,567	2,433,020
General administration	1,750,068	1,601,112	1,725,225	1,608,108	1,143,963	358,225
Interest on long-term debt	308,405	223,717	193,021	170,814	206,768	343,106
Total Governmental Activities Expenses	<u>30,496,747</u>	<u>30,209,680</u>	<u>29,738,442</u>	<u>32,783,738</u>	<u>32,718,585</u>	<u>33,166,525</u>
<u>Business-type Activities</u>						
Water	4,037,961	4,538,186	4,122,822	4,181,855	4,500,578	5,795,279
Sewer	3,441,306	3,416,372	3,745,156	3,953,838	5,006,594	5,066,693
Marina and launch ramp	292,991	325,401	351,705	343,599	332,826	392,994
Total Business-type Activities Expenses	<u>7,772,258</u>	<u>8,279,959</u>	<u>8,219,683</u>	<u>8,479,292</u>	<u>9,839,998</u>	<u>11,254,966</u>
Total Primary Government Expenses	<u>\$ 38,269,005</u>	<u>\$ 38,489,639</u>	<u>\$ 37,958,125</u>	<u>\$ 41,263,030</u>	<u>\$ 42,558,583</u>	<u>\$ 44,421,491</u>
PROGRAM REVENUES						
<u>Governmental Activities</u>						
Charges for Services						
Public representation	\$ 187,069	\$ 204,435	\$ 210,238	\$ 195,316	\$ 202,939	\$ 199,759
Administrative services	272,060	292,665	314,028	311,529	306,964	287,011
Financial services	569,756	591,174	645,166	537,445	728,332	744,109
Public safety	1,184,337	1,162,175	1,098,793	1,116,755	1,134,686	1,224,062
Public works	255,004	266,045	452,606	467,849	588,566	407,569
Highways, streets and bridges	134,059	273,893	555,018	267,689	263,423	372,133
Community and economic development	736,335	977,448	414,543	815,980	762,220	356,051
Culture and recreation	1,064,947	1,026,822	1,151,687	1,141,865	809,228	454,154
General administration	112,045	122,447	200,434	314,658	170,240	64,366
Operating grants and contributions	5,497,188	5,613,628	6,008,978	6,017,421	5,093,355	5,229,279
Capital grants and contributions	5,383,088	10,494,617	5,785,604	5,894,358	5,360,014	3,347,680
Total Governmental Program Revenues	<u>15,395,888</u>	<u>21,025,349</u>	<u>16,837,095</u>	<u>17,080,865</u>	<u>15,419,967</u>	<u>12,686,173</u>
<u>Business-type Activities</u>						
Water	3,966,548	4,131,126	4,977,320	6,912,719	6,342,110	6,569,228
Sewer	4,017,185	4,057,743	4,083,591	4,149,187	4,803,702	5,179,095
Marina and launch ramp	277,311	274,258	266,981	248,460	267,412	281,679
Operating grants and contributions	499,483	-	-	-	-	-
Capital grants and contributions	-	256,612	657,521	100,373	710,641	-
Total Business-type program revenues	<u>8,760,527</u>	<u>8,719,739</u>	<u>9,985,413</u>	<u>11,410,739</u>	<u>12,123,865</u>	<u>12,030,002</u>
Total Primary Government program revenues	<u>\$ 24,156,415</u>	<u>\$ 29,745,088</u>	<u>\$ 26,822,508</u>	<u>\$ 28,491,604</u>	<u>\$ 27,543,832</u>	<u>\$ 24,716,175</u>
NET (EXPENSE) REVENUE						
Governmental Activities	(15,100,859)	(9,184,331)	(12,901,347)	(15,702,873)	(17,298,618)	(20,480,352)
Business-type Activities	988,269	439,780	1,765,730	2,931,447	2,283,867	775,036
Total Primary Government net expense	<u>\$ (14,112,590)</u>	<u>\$ (8,744,551)</u>	<u>\$ (11,135,617)</u>	<u>\$ (12,771,426)</u>	<u>\$ (15,014,751)</u>	<u>\$ (19,705,316)</u>
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS						
<u>Governmental Activities</u>						
Property taxes	\$ 7,175,562	\$ 7,029,393	\$ 6,962,453	\$ 7,670,384	\$ 7,846,707	\$ 8,014,102
Income taxes	6,877,237	6,644,708	7,326,811	7,238,552	7,673,696	7,757,707
Franchise fees	258,425	265,532	-	286,265	285,124	297,200
Grants and contributions not restricted for specific programs	5,353,987	4,938,861	4,645,348	4,627,915	4,674,157	4,475,462
Unrestricted investment earnings	485,080	281,492	170,094	420,595	832,300	1,247,520
Miscellaneous	61,633	109,620	68,405	70,402	64,645	88,035
Gain on sale of capital asset	252,004	62,992	70,886	300,037	81,372	1,604
Transfers	1,845	-	(142,420)	(80,000)	(540,000)	(40,000)
Total Governmental Program Revenues	<u>20,465,773</u>	<u>19,332,598</u>	<u>19,101,577</u>	<u>20,534,150</u>	<u>20,918,001</u>	<u>21,841,630</u>
<u>Business-type Activities</u>						
Unrestricted investment earnings	107,330	71,628	51,768	138,053	122,060	170,594
Gain on sale of capital asset	-	(88,767)	-	-	-	-
Transfers	(1,845)	-	142,420	80,000	540,000	40,000
Total Business-type program revenues	<u>105,485</u>	<u>(17,139)</u>	<u>194,188</u>	<u>218,053</u>	<u>662,060</u>	<u>210,594</u>
Total Primary Government program revenues	<u>\$ 20,571,258</u>	<u>\$ 19,315,459</u>	<u>\$ 19,295,765</u>	<u>\$ 20,752,203</u>	<u>\$ 21,580,061</u>	<u>\$ 22,052,224</u>
CHANGE IN NET ASSETS						
Governmental Activities	5,364,914	10,148,267	6,200,230	4,831,277	3,619,383	1,361,278
Business-type Activities	1,093,754	422,641	1,959,918	3,149,500	2,945,927	985,630
Total Primary Government	<u>\$ 6,458,668</u>	<u>\$ 10,570,908</u>	<u>\$ 8,160,148</u>	<u>\$ 7,980,777</u>	<u>\$ 6,565,310</u>	<u>\$ 2,346,908</u>

SOURCE: The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information start that year. Certain other information has not been presented previously. Reported numbers begin with the year for which information believed to be accurate is available.

City of Muskegon

FUND BALANCE OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General fund										
Reserved	\$ 37,719	\$ 38,993	\$ 78,998	\$ 75,337	\$ 173,696	\$ 110,642	\$ 74,349	\$ 79,356	\$ 177,076	\$ 180,410
Unreserved	2,021,357	1,459,883	2,872,737	3,087,031	2,634,300	2,320,776	2,370,842	2,440,249	2,512,963	2,740,222
Total general fund	<u>\$ 2,059,076</u>	<u>\$ 1,498,876</u>	<u>\$ 2,951,735</u>	<u>\$ 3,162,368</u>	<u>\$ 2,807,996</u>	<u>\$ 2,431,418</u>	<u>\$ 2,445,191</u>	<u>\$ 2,519,605</u>	<u>\$ 2,690,039</u>	<u>\$ 2,920,632</u>
All other governmental funds										
Reserved	\$ 2,261,033	\$ 2,265,315	\$ 2,562,867	\$ 2,533,419	\$ 2,309,214	\$ 1,159,364	\$ 1,187,662	\$ 2,915,106	\$ 7,044,394	\$ 4,130,995
Unreserved, reported in:										
Special revenue funds	6,268,228	5,361,411	4,900,500	4,579,430	3,785,857	3,254,746	2,692,431	2,910,285	3,030,096	4,462,015
Debt service	-	-	-	-	-	153,955	-	-	-	-
Capital project funds	1,832,945	2,848,138	2,361,991	2,143,770	1,614,636	3,849,868	2,187,667	1,239,763	390,282	635,676
Permanent funds	64,034	26,834	60,779	91,707	102,837	63,798	22,896	22,890	77,300	84,413
Total all other governmental funds	<u>\$ 10,426,240</u>	<u>\$ 10,501,698</u>	<u>\$ 9,886,137</u>	<u>\$ 9,348,326</u>	<u>\$ 7,812,544</u>	<u>\$ 8,481,731</u>	<u>\$ 6,090,656</u>	<u>\$ 7,088,044</u>	<u>\$ 10,542,072</u>	<u>\$ 9,313,099</u>

SOURCE: The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information start that year.

City of Muskegon

CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Revenues										
Taxes	\$ 11,980,969	\$ 12,090,941	\$ 12,969,769	\$ 12,996,607	\$ 13,607,863	\$ 13,306,798	\$ 13,767,040	\$ 14,521,769	\$ 15,052,708	\$ 15,420,032
Intergovernmental	12,594,062	10,070,273	16,045,805	15,847,954	15,473,320	18,879,071	15,448,865	15,445,949	14,703,371	12,752,363
Charges for services	2,866,858	2,706,390	3,149,195	2,847,201	3,010,798	3,307,607	3,437,220	3,147,066	2,938,246	2,722,894
Other	4,015,304	3,848,561	4,528,702	4,965,889	3,872,459	3,629,983	3,828,223	4,134,604	3,758,956	4,618,149
Total revenues	31,457,193	28,716,165	36,693,471	36,657,651	35,964,440	39,123,459	36,481,348	37,249,388	36,453,281	35,513,438
Expenditures										
Public representation	699,594	727,900	807,496	903,378	985,107	889,188	869,342	886,717	903,895	927,320
Administrative services	701,724	727,016	759,653	717,680	816,581	795,966	704,667	748,588	669,789	644,913
Financial services	1,557,594	1,549,115	1,585,890	1,679,979	1,797,662	1,846,558	1,829,276	1,905,714	2,056,580	2,231,519
Public safety	9,492,494	10,343,279	11,110,085	11,136,752	11,514,151	11,439,487	12,277,677	12,624,532	13,002,233	12,902,815
Public works	2,517,806	2,738,257	2,668,788	2,678,089	2,680,695	2,731,241	2,543,512	2,661,073	2,730,415	2,768,906
Highways, streets and bridges	4,629,033	4,896,257	7,894,893	8,309,998	8,816,305	11,800,017	8,654,931	9,531,840	8,023,539	6,504,915
Community and economic development	1,668,148	1,338,643	931,336	948,756	971,335	987,097	797,072	784,396	763,211	894,879
Culture and recreation	2,352,626	2,329,065	2,345,712	2,637,586	2,610,935	2,624,275	2,259,699	2,197,276	2,190,835	2,254,117
Other governmental functions	1,826,567	1,698,394	1,252,351	1,441,234	1,798,345	1,589,572	1,708,868	1,603,292	1,139,148	350,385
Debt service										
Principal	1,427,830	2,186,334	1,420,462	1,425,741	1,345,000	1,270,000	1,335,000	1,115,000	1,189,785	1,241,921
Interest and issuance costs	485,792	502,862	380,123	367,317	316,255	230,907	201,447	166,071	271,233	324,577
Capital outlay	4,713,659	2,754,575	6,212,205	5,338,105	4,721,155	4,496,631	6,139,597	3,734,082	6,066,783	5,683,657
Total expenditure	32,072,867	31,791,687	37,368,994	37,584,615	38,373,526	40,690,939	39,321,088	37,958,581	39,007,446	36,729,924
Excess of revenues over (under) expenditures	(615,674)	(3,075,522)	(675,523)	(926,964)	(2,409,086)	(1,567,480)	(2,839,740)	(709,193)	(2,554,165)	(1,216,486)
Other financing sources (uses)										
Transfers in	2,671,947	1,799,463	2,367,561	2,713,591	2,059,336	2,740,742	3,342,612	1,839,631	2,358,509	1,926,538
Transfers out	(2,357,556)	(1,964,092)	(2,336,039)	(2,403,591)	(2,047,491)	(2,740,742)	(3,233,369)	(1,947,677)	(2,926,554)	(1,994,584)
Bonds issued	3,445,000	1,276,900	825,000	-	106,807	1,578,009	-	1,061,900	5,626,331	-
Sale of capital assets	218,107	247,361	356,299	289,786	400,280	282,080	483,544	827,141	1,120,341	286,152
Total other financing sources (uses)	3,977,498	1,359,632	1,212,821	599,786	518,932	1,860,089	592,787	1,780,995	6,178,627	218,106
Net change in fund balances	\$ 3,361,824	\$ (1,715,890)	\$ 537,298	\$ (327,178)	\$ (1,890,154)	\$ 292,609	\$ (2,246,953)	\$ 1,071,802	\$ 3,624,462	\$ (998,380)
Debt service as a percentage of noncapital expenditures	6.99%	9.26%	5.78%	5.56%	4.94%	4.15%	4.63%	3.74%	4.44%	5.05%

SOURCE: The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information start that year.

City of Muskegon

GOVERNMENTAL ACTIVITIES REVENUES BY SOURCE

Last Ten Fiscal Years

Year	Property Tax	% of Total	Income Tax	% of Total	Intergovernmental	% of Total	Charges for Service	% of Total	Licenses and Permits	% of Total	Fines and Fees	% of Total	Interest and Rent	% of Total	Other	% of Total	Total	% Change
1998	\$ 5,530,005	17.6%	\$ 6,450,964	20.5%	\$ 12,594,062	40.0%	\$ 2,866,858	9.1%	\$ 850,890	2.7%	\$ 434,478	1.4%	\$ 1,086,705	3.5%	\$ 1,643,231	5.2%	\$ 31,457,193	-
1999	5,665,792	19.7%	6,425,149	22.4%	10,070,273	35.1%	2,706,390	9.4%	1,015,777	3.5%	277,369	1.0%	1,035,556	3.6%	1,519,859	5.3%	28,716,165	-8.7%
2000	5,891,198	16.1%	7,078,571	19.3%	16,045,805	43.7%	3,149,195	8.6%	1,030,830	2.8%	338,677	0.9%	1,142,700	3.1%	2,016,495	5.5%	36,693,471	27.8%
2001	6,176,436	16.8%	6,820,171	18.6%	15,847,954	43.2%	2,847,201	7.8%	1,014,598	2.8%	350,557	1.0%	914,214	2.5%	2,686,520	7.3%	36,657,651	-0.1%
2002	6,915,254	19.2%	6,692,609	18.6%	15,473,320	43.0%	3,010,798	8.4%	947,428	2.6%	393,314	1.1%	662,513	1.8%	1,869,204	5.2%	35,964,440	-1.9%
2003	6,764,443	17.3%	6,542,355	16.7%	18,879,071	48.3%	3,307,607	8.5%	1,108,780	2.8%	471,682	1.2%	516,482	1.3%	1,533,039	3.9%	39,123,459	8.8%
2004	6,733,653	18.5%	7,033,387	19.3%	15,448,865	42.3%	3,437,220	9.4%	1,139,014	3.1%	622,165	1.7%	435,152	1.2%	1,631,892	4.5%	36,481,348	-6.8%
2005	7,438,382	20.0%	7,083,023	19.0%	15,445,949	41.5%	3,147,066	8.4%	1,047,981	2.8%	648,300	1.7%	684,165	1.8%	1,754,158	4.7%	37,249,024	2.1%
2006	7,627,535	20.9%	7,425,173	20.4%	14,703,371	40.3%	2,938,246	8.1%	1,009,023	2.8%	544,902	1.5%	1,139,466	3.1%	1,065,565	2.9%	36,453,281	-2.1%
2007	7,801,571	22.0%	7,618,461	21.5%	12,752,363	35.9%	2,722,894	7.7%	1,115,518	3.1%	606,545	1.7%	1,348,819	3.8%	1,547,267	4.4%	35,513,438	-2.6%

SOURCE: The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information start that year.

City of Muskegon

Taxable, Assessed and Equalized and Estimated Actual Valuation of Property

Last Ten Fiscal Years

Taxable Valuation of Property

Ad Valorem Assessment Roll

Industrial and Commercial Facilities Assessment Roll

Year	Residential	Agriculture	Commercial	Industrial	Total Real Property	Personal Property	Total Ad Valorem	Industrial Real Property	Industrial Personal Property	Commercial Real Property	Total IFT and CFT	Total Taxable Valuation	Taxable Value As a Percent Actual
1998	\$ 219,149,712	\$ 89,692	\$ 100,174,871	\$ 101,241,425	\$ 420,655,700	\$ 100,998,000	\$ 521,653,700	\$ 18,884,900	\$ 52,934,700	\$ -	- \$ 71,819,600	\$ 593,473,300	96.55%
1999	228,357,868	90,793	102,769,542	105,450,555	436,686,758	117,367,700	554,036,458	19,540,064	62,560,600	-	- 82,100,664	636,137,122	94.06%
2000	239,166,390	86,218	111,996,740	105,150,150	456,399,498	125,766,500	582,165,998	20,340,926	54,398,400	-	- 74,739,326	656,905,324	90.85%
2001	259,245,700	160,831	117,380,175	104,812,046	481,598,752	150,081,900	631,680,652	15,928,671	61,421,700	-	- 77,350,371	709,031,023	87.40%
2002	277,504,213	163,166	129,199,142	103,473,256	510,339,777	125,589,450	635,929,227	10,786,400	61,521,500	-	- 72,307,900	708,237,127	86.36%
2003	295,311,699	163,844	124,679,713	101,987,394	522,142,650	124,833,198	646,975,848	9,114,034	51,183,000	-	- 60,297,034	707,272,882	85.80%
2004	309,291,380	167,357	123,303,933	103,175,554	535,938,224	115,456,493	651,394,717	7,564,826	51,056,856	-	- 58,621,682	710,016,399	87.00%
2005	322,359,014	164,935	126,046,550	104,163,650	552,734,149	109,273,769	662,007,918	7,235,276	47,458,411	-	- 54,693,687	716,701,605	87.62%
2006	341,365,730	-	132,415,743	105,982,619	579,764,092	103,282,670	683,046,762	6,062,774	44,389,891	-	- 50,452,665	733,499,427	87.46%
2007	364,789,125	-	143,991,195	109,089,684	617,870,004	111,824,925	729,694,929	5,433,443	31,408,300	-	- 36,841,743	766,536,672	87.21%

Assessed and Equalized Valuation of Property

Ad Valorem Assessment Roll

Industrial and Commercial Facilities Assessment Roll

Year	Residential	Agriculture	Commercial	Industrial	Total Real Property	Personal Property	Total Ad Valorem	Industrial Real Property	Industrial Personal Property	Commercial Real Property	Total IFT and CFT	Total Assessed Valuation	Estimated Actual Value
1998	\$ 237,823,700	\$ 92,000	\$ 102,580,200	\$ 101,370,700	\$ 441,866,600	\$ 100,998,000	\$ 542,864,600	\$ 18,884,900	\$ 52,934,700	\$ -	- \$ 71,819,600	\$ 614,684,200	\$ 1,229,368,400
1999	263,233,400	100,700	107,881,200	105,577,900	476,793,200	117,367,700	594,160,900	19,589,800	62,560,600	-	- 82,150,400	676,311,300	1,352,622,600
2000	292,740,000	110,700	122,567,000	106,499,200	521,916,900	125,766,500	647,683,400	20,988,600	54,398,400	-	- 75,387,000	723,070,400	1,446,140,800
2001	336,150,700	173,600	136,833,700	109,888,900	583,046,900	150,081,900	733,128,800	16,676,500	61,421,700	-	- 78,088,200	811,227,000	1,622,454,000
2002	358,727,850	173,600	152,324,900	110,440,500	621,666,850	125,597,200	747,264,050	11,272,200	61,521,500	-	- 72,793,700	820,057,750	1,640,115,500
2003	383,845,613	181,300	144,310,700	110,600,499	638,938,112	124,840,700	763,778,812	9,333,500	51,183,000	-	- 60,516,500	824,295,312	1,648,590,624
2004	384,783,400	184,800	141,579,300	114,496,500	641,044,000	115,591,300	756,635,300	7,717,000	51,785,000	-	- 59,502,000	816,137,300	1,632,274,600
2005	397,915,080	200,800	142,436,699	112,694,600	653,247,179	109,280,200	762,527,379	7,481,500	47,924,200	-	- 55,405,700	817,933,079	1,635,866,158
2006	420,608,600	-	149,948,800	113,890,900	684,448,300	103,288,100	787,736,400	6,454,200	44,470,600	-	- 50,924,800	838,661,200	1,677,322,400
2007	448,120,317	-	160,361,200	121,432,880	729,914,397	111,829,191	841,743,588	5,850,600	31,408,300	-	- 37,258,900	879,002,488	1,758,004,976

City of Muskegon

Principal Property Taxpayers

December 31, 2007

	2007			1998		
	Taxpayer	Taxable Valuation	Rank	Percent of Total Taxable Valuation	Taxable Valuation	Rank
	Consumers Energy	\$ 73,315,527	1	9.6%	\$ 60,172,496	1
	Sappi/S.D. Warren Company	35,802,173	2	4.7%	48,731,565	2
	DTE Energy (formerly MichCon).	7,960,600	3	1.0%	8,323,560	6
	Johnson Technology	7,797,731	4	1.0%	8,576,500	5
	ADAC Plastics Inc	6,063,945	5	0.8%		
	ESCO Company	5,844,530	6	0.8%	6,428,100	7
	Hinman Lake LLC	5,651,361	7	0.7%		
	Coles Quality Foods	5,583,238	8	0.7%	5,909,943	9
	Holland Newway International.	5,362,718	9	0.7%		
	Honeywell Inc	5,271,800	10	0.7%		
	Lorin Industries				10,139,408	3
	Brunswick Corp				9,941,800	4
	Muskegon Properties				6,208,561	8
	Bekaert Steel Wire				5,355,800	10
	Total - 10 Largest	158,653,623		20.7%	169,787,733	
	Total - All Other	607,802,592		79.3%	388,148,867	
		\$ 766,456,215		100.0%	\$ 557,936,600	

Source: Muskegon County Equalization Department; City of Muskegon Treasurer's Office

City of Muskegon

Property Tax Rates - Direct and Overlapping Government Units
Property Tax Rates Per \$1,000 Taxable Valuation
Last Ten Fiscal Years

City-Wide Rates

Year	Operating	Promotion	Sanitation	Total City	Library District
1998	7.0000	0.0950	3.0000	10.0950	1.0000
1999	7.0000	0.0880	3.0000	10.0880	0.9947
2000	7.0000	0.0859	3.0000	10.0859	0.9947
2001	7.0000	0.0792	3.0000	10.0792	2.4000
2002	7.0000	0.0786	3.0000	10.0786	2.4000
2003	7.5000	0.0774	2.5000	10.0774	2.4000
2004	8.5000	0.0768	2.5000	11.0768	2.4000
2005	8.5000	0.0755	2.5000	11.0755	2.4000
2006	8.5000	0.0732	2.5000	11.0732	2.4000
2007	8.5000	0.0685	2.5000	11.0685	2.4000

Overlapping - County-Wide Rates

Year	Muskegon County	Intermediate School	Special Education	Vocational Education	Community College
1998	6.7136	0.4716	2.3578	-	2.2591
1999	6.6550	0.4698	2.3486	-	2.2523
2000	6.6256	0.4675	2.3374	-	2.2417
2001	6.5799	0.4640	2.3202	-	2.2233
2002	6.6957	0.4599	2.2997	1.0000	2.2037
2003	6.7957	0.4597	2.2983	1.0000	2.2037
2004	6.7957	0.4597	2.2983	1.0000	2.2037
2005	6.7757	0.4597	2.2983	1.0000	2.2037
2006	6.7557	0.4597	2.2987	0.9996	2.2037
2007	6.7357	0.4597	2.2987	0.9996	2.2037

Overlapping - School District

Year	Operating	Debt	Total	State Education
1998	18.0000	7.0000	25.0000	6.0000
1999	18.0000	7.0000	25.0000	6.0000
2000	18.0000	7.0000	25.0000	6.0000
2001	18.0000	7.0000	25.0000	6.0000
2002	18.0000	7.0000	25.0000	6.0000
2003	18.0000	7.0000	25.0000	5.0000
2004	18.0000	7.0000	25.0000	6.0000
2005	18.0000	7.0000	25.0000	6.0000
2006	18.0000	7.0000	25.0000	6.0000
2007	18.0000	7.0000	25.0000	6.0000

Grand Total

Homestead	Non-Homestead
35.8971	53.8971
35.8084	53.8084
35.7528	53.7528
37.0666	55.0666
38.1376	56.1376
37.2348	55.2348
39.2342	57.2342
39.2129	57.2129
39.1906	57.1906
39.1659	57.1659

City of Muskegon

PROPERTY TAX LEVIES AND COLLECTIONS

Last Ten Fiscal Years

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent Of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Charge backs			Outstanding Delinquent Personal	Outstanding Delinquent Specific	Percent of Delinquent Taxes to Levy
						On Uncollected Delinquent Taxes					
1998	\$ 6,793,669	\$ 6,074,967	89.4%	\$ 371,432	\$ 6,446,399	\$ -	\$	\$	65,466	4,526	1.03%
1999	6,925,862	6,185,473	89.3%	632,875	6,818,348	46,219			89,309	10,148	2.10%
2000	7,378,653	6,631,358	89.9%	382,839	7,014,197	47,117			60,847	7,845	1.57%
2001	7,449,191	6,625,670	88.9%	88,768	6,714,438	24,866			184,894	5,496	2.89%
2002	7,922,898	7,036,846	88.8%	123,906	7,160,752	30,056			168,666	15,700	2.71%
2003	8,095,194	7,201,599	89.0%	710,353	7,911,952	27,338			154,843	20,856	2.51%
2004	8,292,451	7,230,231	87.2%	772,545	8,002,776	36,179			82,305	22,655	1.70%
2005	8,121,734	6,920,960	85.2%	1,027,932	7,948,892	28,156			78,641	21,100	1.57%
2006	8,207,019	7,231,508	88.1%	885,675	8,117,183	13,461			65,297	24,539	1.26%
2007	8,542,477	7,509,102	87.9%	949,754	8,458,856	-			67,586	20,748	1.03%

SOURCE: City of Muskegon Treasurer's Office

City of Muskegon
SEGMENTED DATA ON INCOME TAX FILERS, RATES AND LIABILITY
Most recent Year and Seven Years Previous

Fiscal Year 2007										Fiscal Year 2000									
Taxable Income per Return <i>Individual and Joint Returns</i>	# of Returns	% of Total Returns Filed	Total Taxable Income	Tax Dollars	% of Total Tax Dollars					# of Returns	% of Total Returns Filed	Total Taxable Income	Tax Dollars	% of Total Tax Dollars					
Resident Taxpayers: <i>(City resident income, after exemptions, exclusions and deductions is taxed at a flat rate of 1%.)</i>																			
\$2,500 or less	1,132	5%	\$ 943,800	\$ 9,438	0%					1,179	5%	\$ 1,029,474	\$ 10,295	0%					
\$2,501-\$7,500	898	4%	6,354,100	63,541	1%					1,169	5%	6,827,297	68,273	1%					
\$7,501-\$25,000	2,248	10%	50,880,400	508,804	7%					2,704	10%	52,426,935	524,269	7%					
\$25,001-\$50,000	1,902	8%	98,079,200	980,792	13%					2,394	9%	101,907,814	1,019,078	14%					
\$50,001-\$100,000	965	4%	91,652,000	916,520	12%					986	4%	88,566,998	885,670	13%					
More than \$100,000	163	1%	42,426,600	424,266	6%					142	1%	40,253,382	402,534	6%					
Subtotal	7,308	32%	\$ 290,336,100	2,903,361	38%					8,574	33%	\$ 291,011,900	2,910,119	41%					
Non-Residents Taxpayers: <i>(Non-residents are taxed at a rate of 0.5% on income earned within the City.)</i>																			
\$2,500 or less	2,230	10%	\$ 1,265,852	9,395	0%					1,939	8%	1,428,558	\$ 9,525	0%					
\$2,501-\$7,500	1,331	6%	6,407,400	45,323	1%					1,665	6%	7,901,142	52,677	1%					
\$7,501-\$25,000	3,447	15%	56,191,600	394,402	5%					4,208	16%	68,958,300	459,742	6%					
\$25,001-\$50,000	3,854	17%	142,114,800	997,762	13%					4,917	19%	177,165,226	1,181,151	17%					
\$50,001-\$100,000	2,493	11%	165,312,800	1,160,765	15%					2,102	8%	135,900,236	906,039	13%					
More than \$100,000	628	3%	134,013,400	940,903	12%					527	2%	118,501,368	790,042	11%					
Subtotal	13,983	60%	\$ 505,305,852	3,548,550	47%					15,358	60%	\$ 509,854,830	3,399,176	48%					
All Other Returns <i>(Mostly corporate returns which pay at a rate of 1% on income earned in City and partnerships which pay based on partners residence status.)</i>																			
Subtotal	1,850	8%		1,166,550	15%					1,850	7%		769,276	11%					
Total	23,141	100%		\$7,618,461	100%					25,782	100%		\$7,078,571	100%					

NOTE: Due to confidentiality issues, the names of the ten largest income tax payers are not available. The categories presented are intended to provide alternative information regarding sources of the City's revenue.

SOURCE: City of Muskegon Income Tax Department. The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information starting that year. Certain other information has not been presented previously. Reported numbers begin with the year for which information believed to be accurate is available.

City of Muskegon

RATIO OF OUTSTANDING DEBT BY TYPE

Last Ten Fiscal Years

Year	Governmental Activities				Business-Type Activities					Percent of Personal Income	Per Capita
	General Obligation Limited Tax Bonds	Special Assessment Bonds	State Loans	Total Governmental Activities	Revenue Bonds	Intergovernmental Contactual Debt	State Loans	Total Business-Type Activities	Total Primary Government		
1998	\$ 7,212,344	\$ 2,890,000	\$ 925,194	\$ 11,027,538	\$ 5,000,000	\$ 11,641,295	\$ -	\$ 16,641,295	\$ 27,668,833	4.9%	\$ 687
1999	6,281,203	2,560,000	1,276,900	10,118,103	10,860,000	10,551,497	-	21,411,497	31,529,600	5.5%	783
2000	5,335,741	2,910,000	1,276,900	9,522,641	10,510,000	9,235,090	-	19,745,090	29,267,731	5.0%	730
2001	4,425,000	2,395,000	1,276,900	8,096,900	10,140,000	8,262,203	-	18,402,203	26,499,103	4.4%	661
2002	3,735,000	1,835,000	1,276,900	6,846,900	9,750,000	7,038,014	-	16,788,014	23,634,914	3.8%	589
2003	4,565,000	1,460,000	1,126,900	7,151,900	9,345,000	5,886,923	-	15,231,923	22,383,823	3.6%	562
2004	3,700,000	1,140,000	976,900	5,816,900	8,925,000	4,779,656	8,483,766	22,188,422	28,005,322	4.4%	703
2005	3,615,824	865,000	1,282,976	5,763,800	8,490,000	3,606,017	13,900,000	25,996,017	31,759,817	4.8%	797
2006	8,246,039	615,000	1,356,900	10,217,939	8,035,000	2,454,101	13,335,000	23,824,101	34,042,040	5.0%	855
2007	7,444,118	395,000	1,136,900	8,976,018	7,565,000	1,221,207	12,760,000	21,546,207	30,522,225	4.5%	766

NOTE: None of the debt issued by the City is payable through the levy of property tax millages.

SOURCE: The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information start that year.

City of Muskegon

DIRECT AND OVERLAPPING DEBT

December 31, 2007

Name of Governmental Unit	Total Debt Outstanding	Self Supporting	City General Taxes
<u>Direct Debt</u>			
City of Muskegon:			
Revenue Bonds	\$ 20,325,000	\$ 20,325,000	\$ -
Special Assessment Bonds	395,000	395,000	-
Capital Improvement Bonds	6,550,000	-	6,550,000
Intergovernmental Bonds	2,358,107	-	2,358,107
Michigan Transportation Fund Bonds	390,000	390,000	-
Act 99 Installment Purchase	504,118	-	504,118
Component Unit Debt:			
Downtown Development Authority	3,905,000	3,905,000	-
Local Development Finance Authority	4,645,000	4,645,000	-
Total City Direct Debt	\$ 39,072,225	\$ 29,660,000	9,412,225
	Gross	City Share as Percent of Gross	Net
<u>Overlapping Debt</u>			
Muskegon School District	\$ 27,819,736	94.39%	\$ 26,259,049
Orchard View School District	46,904,667	26.06%	12,223,356
Reeths Puffer School District	67,563,053	10.38%	7,013,045
Muskegon Intermediate School District	-		
Muskegon County	19,205,000	16.23%	3,116,972
Muskegon Community College	17,235,000	16.23%	2,797,241
Total Overlapping Debt	\$ 178,727,456		51,409,662
Total City Direct and Overlapping Debt			\$ 60,821,887

Details regarding the city's outstanding debt can be found in the notes to the financial statements.

SOURCE: Municipal Advisory Council of Michigan and City of Muskegon Finance Department. The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information start that year.

City of Muskegon

LEGAL DEBT MARGIN INFORMATION

Last Ten Fiscal Years

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Debt Limit										
	\$ 54,286,460	\$ 59,416,090	\$ 64,768,340	\$ 73,312,880	\$ 74,726,405	\$ 76,377,881	\$ 75,663,530	\$ 76,252,738	\$ 78,773,640	\$ 84,174,359
Total net debt applicable to limit										
	4,339,244	4,122,747	3,502,641	7,232,900	11,066,900	9,726,900	9,191,900	9,918,800	16,142,939	15,591,018
Legal debt margin										
	\$ 49,947,216	\$ 55,293,343	\$ 61,265,699	\$ 66,079,980	\$ 63,659,505	\$ 66,650,981	\$ 66,471,630	\$ 66,333,938	\$ 62,630,701	\$ 68,583,341

Total net debt applicable to the limit as a percentage of debt limit

	7.99%	6.94%	5.41%	9.87%	14.81%	12.74%	12.15%	13.01%	20.49%	18.52%
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Legal Debt Margin Calculation for 2007:

Assessed Valuation:	\$	841,743,588
Legal Debt Limit (10%)		84,174,359
Total Indebtedness:		39,072,225
Debt not Subject to Limitation:		
Special Assessment Debt		(1,545,000)
Revenue Bonds		(20,325,000)
Michigan Transportation Fund Bonds		(390,000)
Pollution Abatement Debt		(1,221,207)
Debt Subject to Limitation		15,591,018
Legal Debt Margin	\$	68,583,341

SOURCE: The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information that year. Certain other information has not been presented previously. Reported numbers begin with the year for which information believed to be accurate is available.

City of Muskegon
REVENUE BOND COVERAGE
Water Supply System

Last Ten Fiscal Years

Fiscal Year	Gross Revenue (a)	Direct Operating Expenses (b)	Net Revenue Available For Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1998	\$ 3,083,359	\$ 2,096,426	\$ 986,933	\$ 150,000	\$ 285,257	\$ 435,257	2.27
1999	3,579,929	2,463,597	1,116,332	215,000	409,391	624,391	1.79
2000	3,936,337	2,576,864	1,359,473	350,000	494,206	844,206	1.61
2001	4,263,107	3,203,080	1,060,027	370,000	471,301	841,301	1.26
2002	4,051,015	3,030,959	1,020,056	390,000	453,666	843,666	1.21
2003	4,183,015	3,539,690	643,325	405,000	417,559	822,559	0.78
2004	5,016,267	3,186,067	1,830,200	420,000	411,867	831,867	2.20
2005	7,017,844	3,197,232	3,820,612	435,000	418,549	853,549	4.48
2006	6,424,971	3,172,882	3,252,089	1,020,000	662,774	1,682,774	1.93
2007	6,705,739	3,404,649	3,301,090	1,045,000	632,036	1,677,036	1.97

Sewage Disposal System

Fiscal Year	Gross Revenue (a)	Direct Operating Expenses (b)	Net Revenue Available For Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1998	\$ 3,790,903	\$ 2,355,408	\$ 1,435,495	\$ 515,185	\$ 261,692	\$ 776,877	1.85
1999	3,740,179	2,417,775	1,322,404	495,963	237,636	733,599	1.80
2000	4,089,381	2,236,111	1,853,270	421,516	216,776	638,292	2.90
2001	3,991,295	2,656,382	1,334,913	399,933	197,169	597,102	2.24
2002	4,039,448	2,726,975	1,312,473	458,918	137,622	596,540	2.20
2003	4,077,482	2,649,454	1,428,028	473,329	132,214	605,543	2.36
2004	4,096,412	3,038,939	1,057,473	455,179	110,520	565,699	1.87
2005	4,182,115	3,128,119	1,053,996	522,956	114,388	637,344	1.65
2006	4,842,901	4,270,296	572,605	511,626	63,233	574,859	1.00
2007	5,213,140	4,435,211	777,929	506,822	25,221	532,043	1.46

For years in which "revenue bond coverage" is less than 1.00, the shortfall was made up either by use of net assets or by transfer in.

(a) "Gross Revenue" equals total operating revenues plus interest income.

(b) "Direct Operating Expenses" equal total operating expenses net of depreciation expense.

SOURCE: The information in these schedules (unless otherwise noted) is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information start that year. Certain other information has not been presented previously. Reported numbers begin with the year for which information believed to be accurate is available.

City of Muskegon
DEMOGRAPHIC AND ECONOMIC STATISTICS

Last Ten Fiscal Years

Fiscal Year	Population	Personal Income	Per Capita Income	Median Age	Public School Enrollment	Building Permits		Unemployment
						Number	Value	
1998	40,283	\$ 560,978,037	\$ 13,926	30.8	7,116	983	\$ 25,270,127	5.8%
1999	40,283	575,362,089	14,283	30.8	6,954	886	18,913,173	6.2%
2000	40,105	587,140,208	14,640	32.3	6,788	859	39,494,923	6.1%
2001	40,105	601,818,713	15,006	32.3	6,761	893	26,052,549	9.3%
2002	40,105	616,864,181	15,381	32.3	6,603	1,008	39,705,174	12.1%
2003	39,825	627,871,373	15,766	32.3	6,327	1,061	21,369,545	13.9%
2004	39,825	643,568,157	16,160	32.3	6,088	1,152	37,963,075	11.1%
2005	39,825	659,657,361	16,564	32.3	5,862	966	30,041,025	9.0%
2006	39,825	676,148,795	16,978	32.3	5,625	1,063	27,328,144	8.6%
2007	39,825	693,052,515	17,402	32.3	5,534	941	36,129,064	9.5%

SOURCE: US Census Bureau, Muskegon Area Intermediate School District (MAISD), City of Muskegon Inspections Department

City of Muskegon
PRINCIPAL EMPLOYERS

Current Year and Nine Years Ago

	2007				1998			
	Employees	Rank	Percentage of total City employment		Employees	Rank	Percentage of total City employment	
Mercy General Health Partners	1,954	1	6.5%		1,458	1	5.6%	
Hackley Hospital	1,578	2	5.3%		1,183	2	4.6%	
County of Muskegon	1,211	3	4.0%		1,000	3	3.8%	
State of Michigan	1,064	4	3.5%		901	5	3.5%	
Muskegon Public Schools	931	5	3.1%		975	4	3.8%	
ADAC Plastics	500	6	1.7%		231	-	-	
Johnson Technology	425	7	1.4%		-	-	-	
Verizon	350	8	1.2%		763	7	2.9%	
City of Muskegon	270	9	0.9%		348	9	1.3%	
Sappi Fine Paper (Formerly SD Warren)	250	10	0.8%		850	6	3.3%	
Brunswick	-	-	-		553	8	2.1%	
SPX	-	-	-		300	10	1.2%	

SOURCE: City of Muskegon

City of Muskegon

FULL-TIME CITY GOVERNMENT POSITIONS BY DEPARTMENT

Last Ten Fiscal Years

Department	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Administration	1.50	1.70	1.70	1.70	1.50	1.50	1.50	1.50	1.50	1.50
Affirmative Action	1.20	1.00	1.00	1.00	1.50	1.50	1.50	1.50	1.50	1.50
Cemetaries	3.54	3.52	3.52	3.52	3.52	3.52	3.52	3.25	3.00	3.25
City Assessors Office	4.50	5.50	-	-	-	-	-	-	-	-
City Clerk & Elections	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
City Commission	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
City Hall Maintenance	1.51	1.23	1.20	1.20	1.25	1.20	1.00	1.00	1.00	1.00
City Manager's Office	2.05	2.05	2.05	3.05	2.75	1.75	1.75	1.75	1.75	1.75
City Treasurer's Office	7.50	6.50	6.00	6.00	6.00	6.00	5.00	5.00	5.00	4.00
Civil Service	2.00	2.00	2.00	2.00	3.00	3.00	2.00	2.00	2.00	2.00
Community Event Support	-	-	-	0.60	0.20	0.20	-	-	-	-
Environmental Services	-	16.00	5.00	4.00	4.00	4.00	3.50	2.00	2.00	2.00
Farmers Market	0.10	0.12	0.12	0.12	0.12	0.12	0.12	-	-	-
Finance Administration	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Fire	45.00	46.00	44.00	44.00	44.00	43.00	41.00	40.00	38.00	38.00
Fire Safety Inspections	-	-	13.00	13.00	12.00	13.00	12.00	10.00	12.00	12.00
Forestry	2.76	2.68	2.68	2.68	2.18	1.93	0.93	-	-	-
General Recreation	0.78	0.78	0.78	0.78	0.78	2.24	1.24	1.00	1.17	1.33
Income Tax Administration	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Information Systems	2.00	2.00	3.00	3.00	4.00	4.00	4.00	3.00	3.00	3.00
Inner City Recreation	1.43	1.46	1.46	1.46	1.46	-	-	-	-	-
Parking	0.32	0.30	0.30	0.30	0.30	0.30	-	-	-	-
Parks	9.93	10.03	10.03	11.53	11.53	10.53	9.68	8.48	8.25	8.15
Planning, Zoning & Economic Development	7.00	8.00	8.00	7.50	7.50	7.50	6.50	6.00	6.00	6.00
Police	96.00	102.00	102.00	102.00	102.00	96.00	94.00	94.00	94.00	94.00
Sanitation	2.10	2.10	2.10	1.10	1.25	1.25	1.10	1.10	1.00	1.00
MVH-Major Streets	13.35	13.35	13.35	13.75	14.70	15.30	15.45	15.25	16.00	17.75
MVH-Local Streets	6.20	7.20	7.20	7.40	7.20	7.20	7.00	7.00	7.00	7.00
MVH-State Trunklines	1.60	1.60	1.60	1.60	1.60	1.60	2.00	2.00	2.00	-
Highway Non-Chargeables	0.20	0.20	0.20	-	-	-	-	-	-	-
Street Lighting	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
Walker Arena	0.10	0.12	0.12	0.12	0.12	0.12	0.12	-	-	-
Community Development	7.00	6.00	6.00	5.00	5.00	5.00	5.00	4.00	4.00	4.00
Home Program	-	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Sewer Maintenance	13.40	14.40	14.40	14.40	14.40	15.15	14.55	15.05	16.00	16.20
Water Filtration	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Water Maintenance	17.15	16.15	16.15	15.65	15.65	15.65	15.15	14.65	13.00	12.50
Hartshorn Marina Fund	0.76	0.79	0.79	0.79	0.79	0.79	0.79	0.67	0.73	0.67
Public Service Building	3.10	3.30	3.30	3.30	3.30	3.30	3.65	3.85	3.45	3.45
Engineering	9.90	8.90	8.90	9.40	9.35	9.40	7.70	7.70	7.45	7.45
Equipment	8.67	8.67	7.70	7.70	7.70	7.70	8.00	8.00	8.95	8.25
	296.00	320.00	314.00	314.00	315.00	308.00	294.00	284.00	284.00	282.00

SOURCE: City of Muskegon Finance Department

City of Muskegon

OPERATING INDICATORS BY FUNCTION/PROGRAM

Last Ten Fiscal Years

Function/Program	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Administrative Services										
Elections										
Number of registered voters	24,045	23,369	23,100	23,457	23,931	23,904	25,261	25,918	26,028	26,345
Number of votes cast:										
Last general election	9,029	9,029	12,054	12,054	8,916	8,916	14,169	14,169	10,410	10,410
Last city election	4,902	3,069	3,069	3,840	3,840	4,325	4,325	4,022	4,022	1,101
Percentage of registered voters voting:										
Last general election	38%	39%	52%	51%	37%	37%	56%	55%	40%	40%
Last city election	20%	13%	13%	16%	16%	18%	17%	16%	15%	4%
Financial Services										
Property Tax Bills	N/A	N/A	15,854	15,804	15,586	15,428	15,403	15,404	15,354	15,376
Income Tax Returns	N/A	N/A	N/A	N/A	25,135	25,043	24,378	23,884	23,493	23,141
Paper Check Issued to Vendors	4,471	3,957	3,850	3,922	4,012	3,784	3,405	3,205	3,248	3,347
Electronic Payments to Vendors	369	496	571	662	651	746	752	828	800	772
Public Safety										
Fire Protection										
Number of firefighter and officer positions	45	45	45	45	44	42	41	41	41	41
Number of emergency calls	4,336	3,823	3,693	3,818	3,878	3,656	4,116	4,206	4,092	4,171
Police Protection										
Number of sworn officer positions	91	91	91	91	85	83	83	83	84	84
Part I (Major) Crimes	3,571	4,011	3,537	3,429	3,504	2,971	3,360	3,303	3,495	2,997
Public Works										
Refuse Collected (Tons per Year)	12,267	12,078	12,211	11,718	11,420	11,780	11,925	11,074	11,192	10,375
Recyclables Collected (Tons per Year)	913	815	897	838	808	775	779	588	559	629
Water & Sewer										
Number of consumers	14,917	14,917	14,917	14,917	14,917	14,917	14,917	14,455	14,412	14,364
Average daily water consumption (GPD)	9,269,000	9,269,000	8,498,000	9,877,000	9,453,000	9,453,000	8,870,000	9,582,000	8,988,000	9,314,000
Water main breaks repaired	9	11	13	12	12	19	10	5	13	21
Sewer flows (Millions Gallons per Year)	2,219	2,070	1,718	1,994	1,477	1,387	1,475	1,700	2,040	1,945
Sewer Service Calls	627	716	925	799	661	624	568	638	605	598

SOURCE: City of Muskegon Departments

City of Muskegon

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

Last Ten Fiscal Years

Function/Program	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Public Safety										
Fire Protection										
Number of stations	3	3	3	3	3	3	3	3	3	3
Police Protection										
Number of stations	1	1	1	1	1	1	1	1	1	1
Highways, Streets and Bridges										
Miles of Streets	197.56	197.56	197.51	197.52	197.39	197.96	196.95	196.95	197.48	197.79
Number of streetlights	3,085	3,085	3,115	3,111	3,114	3,123	3,111	3,159	3,159	3,134
Culture and Recreation										
Number of parks (acres)	611	611	611	612	612	701	701	701	701	701
Lake Michigan beaches (acres)	119	119	119	119	119	119	119	119	119	119
Hockey/Entertainment Arena	1	1	1	1	1	1	1	1	1	1
Sewer										
Sanitary sewers (miles)	174.16	174.16	174.97	175.01	175.33	175.33	178.02	179.41	175.74	177.04
Storm sewers (miles)	177.30	177.30	177.97	178.29	178.57	178.57	178.61	179.23	180.48	183.25
Water										
Water mains (miles)	191.62	191.62	192.30	192.60	193.09	193.66	194.14	194.14	194.15	195.63

SOURCE: City of Muskegon Departments

SINGLE AUDIT OF FEDERAL FINANCIAL ASSISTANCE PROGRAMS

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

June 24, 2008

City Commission
City of Muskegon
Muskegon, Michigan

We have audited the financial statements of the City of Muskegon as of and for the year ended December 31, 2007 and have issued our report thereon dated June 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Muskegon's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Muskegon's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Muskegon's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Responses, as Finding 1, to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

BRICKLEY DELONG

City Commission
June 24, 2008
Page 2

Compliance

As part of obtaining reasonable assurance about whether the City of Muskegon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Muskegon's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the City of Muskegon's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Commission, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

June 24, 2008

City Commission
City of Muskegon
Muskegon, Michigan

Compliance

We have audited the compliance of the City of Muskegon with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. The City of Muskegon's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Responses. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Muskegon's management. Our responsibility is to express an opinion on the City of Muskegon's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Muskegon's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Muskegon's compliance with those requirements.

In our opinion, the City of Muskegon complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

Internal Control Over Compliance

The management of the City of Muskegon is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Muskegon's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Muskegon's internal control over compliance.

City Commission
June 24, 2008
Page 2

Internal Control Over Compliance—Continued

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the City of Muskegon as of and for the year ended December 31, 2007 and have issued our report thereon dated June 24, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the City Commission, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

City of Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue January 1, 2007	Cash or payments in kind received (cash basis)	Amount of grant expenditures	Accrued (deferred) revenue December 31, 2007	Note
U.S. Department of Housing and Urban Development							
Direct programs							
Community Development Block Grant	14.218						
B-06-MC-26-0026		\$ 1,020,145	\$ 100,435	\$ 632,795	\$ 532,360	\$ -	
B-06-MC-26-0026		1,018,704	-	297,322	770,047	472,725	
Program Income		35,571	-	35,571	35,571	-	
Total Community Development Block Grant		2,074,420	100,435	965,688	1,337,978	472,725	
Direct programs							
Home Investment Partnership Program	14.239						
M-04-MC-26-0215		337,937	-	4,607	6,245	1,638	
M-05-MC-26-0215		320,839	49,667	100,322	50,655	-	
M-06-MC-26-0215		301,767	23,730	216,514	199,784	7,000	
M-07-MC-26-0215		298,923	-	90,558	189,149	98,591	
Program Income		653,335	(18,769)	127,441	146,210	-	
Total Home Investment Partnership Program		1,912,801	54,628	539,442	592,043	107,229	
Direct programs							
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900						
FR-5100-N-20A		2,079,492	-	-	7,655	7,655	
Total U.S. Department of Housing and Urban Development		6,066,713	155,063	1,505,130	1,937,676	587,609	
U.S. Department of Justice							
Passed through the Michigan Family Independence Agency							
Juvenile Justice Grant	16.548						
DP-05-61001-3		47,000	9,557	47,000	37,443	-	
Total Juvenile Justice Grant		47,000	9,557	47,000	37,443	-	
Direct programs							
Bulletproof Vest Partnership Grant	16.607						
2005 Grant		225	-	225	225	-	

City of Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended December 31, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue January 1, 2007	Cash or payments in kind received (cash basis)	Amount of grant expenditures	Accrued (deferred) revenue December 31, 2007	Note
<i>U.S. Department of Justice—Continued</i>							
Passed through the Ottawa County WEMET Multi-Jurisdictional Drug Enforcement CO-OP	16.738						
70834-807B		\$ 36,825	\$ 11,603	\$ 36,825	\$ 25,222	\$ -	
70834-908B		36,825	-	-	10,578	10,578	
Total WEMET Multi-Jurisdictional Drug Enforcement CO-OP		73,650	11,603	36,825	35,800	10,578	
Passed through Muskegon County United Way Weed and Seed	16.595						
2006-WS-Q5-0145		51,668	1,662	49,799	48,137	-	
Total Weed and Seed		51,668	1,662	49,799	48,137	-	
Total U.S. Department of Justice		172,543	22,822	133,849	121,605	10,578	
<i>U.S. Department of Transportation, Federal Highway Administration</i>							
Passed through the Michigan Department of Transportation Highway Planning and Construction Program	20.205						
Proj CM0761 (024) Fed Item RR5822 Contract 07-5379		58,000	-	58,000	58,000	-	2
Proj CMG0761 (025) Fed Item JJ2804 Contract 07-5379		250,000	-	250,000	250,000	-	2
Proj STP0661 (017) Fed Item TT0173 Contract 06-5322		325,460	-	126,893	126,893	-	2
Proj STP0661 (025) Fed Item RR5346 Contract 06-5470		467,448	-	467,448	467,448	-	2
Proj STP0761 (011) Fed Item HH4997 Contract 07-5131		219,559	-	206,007	206,007	-	2
Proj STP0661 (005) Fed Item LL0312 Contract 06-5010		799,370	-	78,130	78,130	-	2
Proj HPSL0661 (016) Fed Item RR5086 Contract 06-5195		960,000	298,395	93,921	192,000	396,474	
Total U.S. Department of Transportation, Federal Highway Administration		3,079,837	298,395	1,280,399	1,378,478	396,474	
TOTAL FEDERAL ASSISTANCE		\$ 9,319,093	\$ 476,280	\$ 2,919,378	\$ 3,437,759	\$ 994,661	

City of Muskegon
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2007

1. See the notes to the financial statements for significant accounting policies used in preparing this schedule.
2. These programs are administered by the Michigan Department of Transportation (MDOT) and federal compliance reports of these programs are included in the single audit of MDOT.
3. The following is a reconciliation of federal revenues as reported on page 36 of the City of Muskegon financial statements for the year ended December 31, 2007 and federal expenditures per the Schedule of Expenditures of Federal Awards.

Federal revenues per City of Muskegon financial statements for the year ended December 31, 2007 (page 36)	
General Fund	\$ 84,162
Major Street and Trunkline Fund	1,108,348
Local Street Fund	192,000
Other governmental funds	<u>1,871,468</u>
	<u>3,255,978</u>
Plus program income	<u>181,781</u>
Federal assistance expenditures and operating transfers out per Schedule of Expenditures of Federal Awards	<u>\$ 3,437,759</u>

City of Muskegon
SCHEDULE OF FINDINGS AND RESPONSES
Year ended December 31, 2007

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Muskegon.
2. **One (1)** significant deficiency disclosed during the audit of the financial statements is reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and is reported in Part B of this schedule. This significant deficiency is not reported as a material weakness.
3. **No** instances of noncompliance material to the financial statements of the City of Muskegon were disclosed during the audit as reported in Part B of this schedule.
4. **No** significant deficiencies were disclosed during the audit of the major federal award programs as reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and as reported in Part B of this schedule.
5. The auditors' report on compliance for the major federal award programs for the City of Muskegon expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs were:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Housing and Urban Development</i> Home Investment Partnership Program	14.239
<i>U.S. Department of Transportation, Federal Highway Administration</i> Highway Planning and Construction Program	20.205

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Muskegon was determined to be a low-risk auditee.

City of Muskegon
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended December 31, 2007

B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

COMPLIANCE

NONE

SIGNIFICANT DEFICIENCIES

2007 Finding No. 1: Capital Asset Recordkeeping Procedures

Criteria: Capital asset additions should be identified and maintained in detailed capital asset records.

Condition: During our detailed testing of capital outlay expenditures, we noted items which qualified as capital assets within the City's capitalization policy, which were not recorded in the City's detailed capital asset records.

Cause: The City personnel inadvertently overlooked capital assets within capital outlay expenditure general ledger accounts.

Effect: Capital assets reported in the government-wide (full accrual) financial statements would have been understated. However, after the assets were identified, the City properly reported the additional capital assets.

Recommendation: Capital assets for governmental activities should be more carefully identified and included in the government-wide (full accrual) financial statements.

City Response: The City management agrees with the finding and will implement the recommendation.

C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133

COMPLIANCE

NONE

SIGNIFICANT DEFICIENCIES

NONE

CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 24, 2008

U.S. Department of Housing and Urban Development
Washington, D.C.

The City of Muskegon respectfully advises you that there were ***no*** audit findings or questioned costs reported in our single audit report, dated April 5, 2007, for the year ended December 31, 2006.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Timothy J. Paul', with a large, stylized loop at the end.

Timothy J. Paul
Financial Director

CORRECTIVE ACTION PLAN

June 24, 2008

U.S. Department of Housing and Urban Development
Washington, D.C.

The City of Muskegon respectfully submits the following Corrective Action Plan for the year ended December 31, 2007.

Name and address of independent public accounting firm:

Brickley DeLong, PLC
P.O. Box 999
Muskegon, Michigan 49443

Audit period: December 31, 2007

The findings from the Schedule of Findings and Responses for the year ended December 31, 2007 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings reported in relation to the financial statement audit.

SIGNIFICANT DEFICIENCIES

Fiscal 2007 Finding No. 1: Capital Asset Recordkeeping Procedures

Recommendation: Capital assets for governmental activities should be more carefully identified and included in the government-wide (full accrual) financial statements.

Action Taken: A programming change has been made to ensure purchases over the capitalization threshold are filtered for all City funds and projects.

U.S. Department of Housing and Urban Development
June 24, 2008
Page 2

B. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

There were ***no*** compliance findings reported in relation to major federal award programs.

SIGNIFICANT DEFICIENCIES

There were ***no*** significant deficiencies reported in relation to major federal award programs.

If the U.S. Department of Housing and Urban Development has questions regarding this plan, please call Timothy J. Paul at (231) 724-6709.

Sincerely,

A handwritten signature in dark ink, appearing to read 'T. Paul', with a large, sweeping loop at the end.

Timothy J. Paul
Financial Director